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INSIDE FOXCONN



EXCLUSIVE

Massive, secretive, and hit by a rash of worker suicides, the Chinese manufacturer of iPhones, PCs, and PlayStations opens up. A look at the industrial powerhouse of the 21st century.

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Corrections & Clarifications

B The caption on a photograph accompanying "Running Afoul of China, BYD Could Lose Plants" (Companies & Industries, Sept. 6) incorrectly said that BYD's Shenzen complex was under scrutiny by Chinese officials. The story, however, correctly stated that the inquiry involves BYD's complex in Xi'an.

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Opening Remarks

Dear Craigslist, Grow Up

The website shuttered its U.S. "adult services" section. If it really wants to fix the problem, it has to operate like the mainstream site it is. By Brad Stone

Serra Sippel is not accustomed to receiving large, unsolicited donations in the mail. Nor is she used to sending them back.

That's what happened earlier this summer, however, when Sippel, president of a Washington (D.C.)-based nonprofit women's safety organization called the Center for Health and Gender Equity, received—with little explanation—a $25,000 check from the Craigslist Charitable Fund, a philanthropic arm of the famously nonconformist classified ad website headquartered in San Francisco.

Her organization needed the money, so Sippel spent a weekend studying Craigslist, which helps people buy and sell used products and find jobs, housing, and companionship on more than 700 local sites around the world. Clicking on ADULT SERVICES, she noticed obvious solicitations from prostitutes; browsing through its blog, she came across Chief Executive Officer Jim Buckmaster's testy replies to allegations that the site facilitates sex trafficking. Ultimately, Sippel decided she was uncomfortable keeping the donation. "I just didn't understand why they wouldn't express more concern," Sippel says. "They did the minimum to address the demands of law enforcement, expecting some goodwill. But there was clearly more they could do to fight trafficking."

Does Craigslist care more about its legal rights or its social responsibility as a dominant site with 50 million users in the U.S. alone? After two years of near-constant criticism from state attorneys general, on Sept. 4 the site finally shuttered its controversial adult services. Instead of simply dropping the header, however, Craigslist replaced it with a single word: CENSORED. And then it went silent, refusing to comment on the move.



Sexual solicitations have migrated to the personals section

Opening Remarks

"Craigslist did a lot to clean up the ads, but certainly the underlying criminal conduct continued."
Cara Smith, deputy chief of staff, Illinois Attorney General's Office

Adult services had become an uncomfortably profitable business. Craigslist, which started charging for sex ads in 2008 at the behest of law enforcement officials who wanted the company to verify the identities of adult advertisers, was on track to earn $44.4 million from the section in 2010 alone, according to a recent estimate from the AIM Group, which monitors classified advertising. That's almost a third of the company's projected annual revenues of $122 million. The adult revenues have helped make Craigslist a target not just of law enforcement officials but of nonprofits that fight human slavery and child prostitution. "Law enforcement and anti-trafficking experts all agreed that Craigslist, through its adult services section, was the No. 1 platform for buying and selling sex with children and young women online," says Bradley Myles, executive director of the Polaris Project, an anti-trafficking organization.

Under a provision of the 1996 law called the Communications Decency Act, Web companies cannot be held liable for the material users post on their sites. Even so, most popular Internet firms have come to the conclusion that they have a larger ethical responsibility to tame the wild beast that is participatory media. Over the last 15 years, one after another, companies like AOL, Yahoo!, MySpace, YouTube, and Facebook added staff and filtering technology in an effort to monitor their sites, reassure parents, calm advertisers, and position themselves as good corporate citizens. They remove pornography, profanity, and other illicit content from their user-generated forums, quickly eradicating pages designed to attract such material.

Craigslist, with all of 30 employees working in a Victorian house in San Francisco, has taken a different approach. It was never as irresponsible as its critics charged, or as good a corporate citizen as Buckmaster professed to be in his blog postings on the topic. Over the years, Craigslist changed the name of its adult listings from "erotic services," tried asking advertisers to verify their identities with an automated phone system, and added a team of outside lawyers to manually screen ads. Those efforts helped: Buckmaster has pointed out that traffic spiked at alternative media outlets—sites that don't manually screen adult content—after Craigslist began screening. And explicit nude photos next to adult ads largely disappeared from its U.S. pages.

With only a few dozen full-time employees and a category uniquely devoted to adult listings, however, Craigslist can only do so much. Adult advertisers easily sidestepped the protective measures with euphemisms—"100 roses for a half-hour date"—and no one was fooled. "Craigslist did a lot to clean up the ads, but certainly the underlying criminal conduct continued," says Cara Smith, deputy chief of staff for Illinois Attorney General Lisa Madigan. The company made no changes to its adult categories in more than 200 overseas markets, which are still called "erotic services" and are often replete with pornographic photos accompanying direct come-ons for paid sex.

Craigslist's reluctance to hire more full-time staff and expand its filtering efforts are part of its basic philosophical stance. The company proudly positions itself as noncommercial, preserving the .org suffix in its URL (though it's a for-profit business) and charging only for real estate and job ads in a few select markets. Like another San Francisco Web pioneer, the operator of Wikipedia, Craigslist believes that the Internet enables a new kind of small enterprise to create a global service that delivers a public good by tapping into the power of users who "crowdsource" content.

By becoming mired in a seemingly never-ending legal scrum over adult ads, Craigslist is forcing even Internet true-believers to question that model. "I have concluded over the years that crowd-sourcing isn't enough," says Eric Goldman, director of the High Tech Law Institute at California's Santa Clara University. "There has to be enough of a human presence to make sure sites can deliver on the trust that users want to have in them. It could very well be that Craigslist is just understaffed, and there is no model for it to continue operating at the current level."

The immediate question is whether Craigslist really will leave its adult listings in the U.S. shut down and perhaps extend the move abroad, or whether it intends to reopen adult services and fight for what it perceives as a crucial freedom of speech issue for the Internet. Craigslist executives haven't said anything about their actions or intentions over the past week (and did not respond to a request for comment). They could keep the CENSORED sign, surrendering while thumbing their noses at critics, or reignite the fight by asking a judge to rule that state attorneys general are violating their rights.

Law enforcement officials hope that Craigslist will continue to combat prostitution ads, even as the postings migrate to other categories, such as PERSONALS. Yet law enforcement officials concede they have no idea what's coming next. "The silence is baffling," says Connecticut Attorney General Richard Blumenthal.

If Craigslist wants to leave the rancor behind, it needs to do more than shut down adult services. It needs to follow its larger, more commercially minded Internet brethren and take responsibility for the content on its site. That would mean hiring more employees, getting more sophisticated in its use of screening tools, and perhaps even doing more to verify the identities of users and advertisers.

Like it or not, the company that styles itself as flamboyantly noncommercial has become incontrovertibly mainstream. Unlike the alternative media outlets it compares itself to, tens of millions of regular people routinely use Craigslist—and may encounter prostitution, and worse, on its pages for the first time. For the rebels at Craigslist, it's time to grow up by clamping down.

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Presidential candidate Rousseff (left) with Lula and Palocci in 2006

The Lula Lieutenant Calming Business in Brazil

▶ **The President's chosen successor has crucial support from the man who remade the economy**

▶ **"What Palocci did... set Brazil on the right course"**

An ex-physician-turned-politician named Antonio Palocci may hold the key to Brazil's continued success as a model of emerging-market growth and a favorite of stock- and bondpickers.

Palocci isn't running for office. His involvement in a major political scandal four years ago probably means the 49-year-old will never occupy the Presidential Palace. Instead, the ex-Finance Minister is economic adviser to the presidential campaign of Dilma Rousseff, the Workers' Party candidate who enjoys a 22-point lead over Social Democrat José Serra with just a few weeks to go before the Oct. 3 election. Rousseff, 62, served as Energy Minister and then chief of staff under President Luiz Inácio Lula da Silva, who backs her for the Presidency.

Like Lula, Rousseff has a leftist past, and her days as part of a Marxist guerrilla group in the 1960s mark her as even more radical than her boss. Rousseff's rhetoric still has that radical flavor: In August she said it would be a "crime" to cut state spending. Her core following in the working class loves hearing that.

Such talk from the probable next President of one of the top emerging-market countries might ordinarily make investors nervous were it not for the presence of Palocci, who as Finance Minister from 2003 to 2006 guided Lula to tackle Brazil's mounting debt and curb inflation. Palocci paid off $15.5 billion in loans to the International Monetary Fund ahead of schedule and sponsored a bankruptcy law favoring creditors over workers. He created rules allowing loan payments to be deducted from paychecks that fueled a record expansion of credit among low-income families. Under Palocci's watch, inflation slowed to 5.3 percent from 17.2 percent, and the benchmark Bovespa stock index more than doubled. Those achievements delighted the markets, which had expected Lula to usher in a disastrous era of overspending and attacks on the private sector.

"Palocci stands for fiscal prudence. It's not clear how much support there is for that in his own party"

ALAN MARQUES/FOLHAPRESS/EFE

Global Economics

Pimco, the giant bond fund manager, has made Brazilian debt its favorite among emerging markets mostly because of its long-standing confidence in Palocci, who is still a congressman from São Paulo state. Brazil's 11 percent bonds maturing in 2040, the benchmark, have tripled in price since Pimco increased its holdings eight years ago. "Palocci's steady hand is what kept us in the trade," says Mohamed A. El-Erian, Pimco's chief executive officer, who met with Palocci twice following Lula's election. Today El-Erian, who visited Brazil this summer, says he's still "comfortable" with Pimco's Brazilian holdings.

"The more the market sees of Palocci, the happier it feels about Dilma," says Urban Larson, who helps oversee about $2.2 billion as a Latin American stock fund manager for F&C Asset Management in London. Palocci, who accompanies Rousseff to presidential debates and television interviews, declined to be interviewed for this story.

Political analysts say Palocci is more likely to serve as cabinet chief under Rousseff instead of picking up his finance portfolio again. Palocci's insistence on fiscal austerity during Lula's first term is needed again to rein in public spending and slow the flow of "gusher" credit from state banks, says Thomas Trebat, head of the Institute of Latin American Studies at Columbia University. "What Palocci did as Finance Minister set Brazil on the right course," says Trebat, a former Citigroup analyst. "Brazil needs him again."

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BASIS POINTS

Spread between yields on Irish 10-year government bonds, which hit 5.9 percent on Sept. 7, and German bonds, which dropped to 2.2 percent. Investors dumped Irish bonds on renewed fears of a sovereign debt crisis.

DATA: BLOOMBERG

490%

The gain in the Brazilian stock index during Lula's presidency

Palocci's role may include helping Rousseff battle those members of the Workers' Party who want to expand the government's role in the economy, says Paulo Vieira da Cunha, a director of Brazil's central bank until 2008 and now a partner at Tandem Global Partners in New York. "Palocci stands for fiscal prudence," says Vieira da Cunha. "It's not clear how much support there is for that within his own party."

Rousseff, under Palocci's influence, has toned down her rhetoric when speaking to investors. In May she surprised those attending a conference in New York by discussing a possible reduction of Brazil's inflation target—something Lula has refused to consider. Rousseff said it was "very important" to reduce lending by the state development bank, which has more than doubled since 2007. "It was a watershed event, and Palocci orchestrated it," says Carlos Thadeu de Freitas Gomes, a former central bank director who is chief economist at the National Federation of Commerce in Rio de Janeiro. "It was the signal the market wanted that she would follow an orthodox path."

Like Rousseff, Palocci joined the Marxist underground as a student, then later co-founded the Workers' Party with Lula. As mayor of Ribeirão Preto in São Paulo state, he learned the need for budget discipline. In his 2007 memoir, *About Ants and Cicadas*, Palocci said spending cuts are the first step to boosting investment and growth, while loose monetary policy is not the way to strengthen an economy. "A forced reduction of interest rates, without having savings and the investment capacity to increase the supply of goods, is an extremely risky path," he wrote.

Palocci had to resign as Finance Minister in 2006 after lawmakers accused him of illegally obtaining and leaking the private bank records of a witness in a bribery investigation that targeted senior Workers' Party officials. The witness, a caretaker, placed Palocci at a Brasilia mansion where politicians and lobbyists allegedly negotiated bribes and partied with prostitutes. Palocci denied any wrongdoing, and the Supreme Court cleared him of breaking bank secrecy laws last year. Lula continues to stand by him. "I owe him a part of my government's success," Lula said in an Aug. 5 interview with *IstoÉ* magazine. "Especially during the first two years, when we had to eat charcoal instead of filet mignon." —*Joshua Goodman and Iuri Dantas*

The bottom line *Lula's ex-Finance Minister may be key to maintaining Brazil's sterling reputation among investors after Lula leaves office.*



A pro-Malay rally in March: Some Najib backers are now opponents

Burger King: Forever second place? page 18 ▶



Southeast Asia

Malaysia Tries to Curb Its Pro-Malay Policies

- ▶ Prime Minister Najib seeks faster growth with ethnic-neutral rules
- ▶ "I want a better future for the kids, for them to start on even ground"

Malaysian Prime Minister Najib Razak wants to engineer a return to Malaysia's glory days between 1987 and 1996 when its economy boomed, investment poured in, and local share prices almost quintupled.

Although Malaysia's economy has expanded since those heady times, its average annual growth has declined from 7.2 percent in the 1990s to 4.7 percent in the last decade. A fast-rising China has attracted investment that might otherwise have gone to Malaysia, while neighbor Singapore has built new industries, wooed multinationals aggressively, and outstripped Malaysia in growth. "Beyond commodities, it's difficult to see Malaysia's competitive advantage vis-à-vis other Asian countries," says Joseph Tan, Singapore-based Asian chief economist at Credit Suisse Private Bank.

In response, Najib, in office since April 2009, has moved to streamline the government, made it easier for foreigners to invest, backed cutting-edge industries, and promoted a productive, educated workforce. His most controversial initiative is to start dismantling the policies that favor the ethnic Malay majority that put him in office—policies adopted by his father 40 years ago, when Abdul Razak was Prime Minister and the country was still recovering from riots between the Malay majority and the Chinese minority that left hundreds dead.

Those 1969 riots started in part because the Malays felt the Chinese controlled the economy. To raise the share of national wealth held by Malays and indigenous groups to at least 30 percent, Najib's father crafted a policy that gave them cheaper housing as well as priority for college enrollment, government contracts, and shares of publicly traded companies.

For the most part, the pro-Malay policy has kept the peace. "Malaysia has done very well, and affirmative action was a strong contributor to the stability that allowed for such development," says Masahide Hoshi, a director at Phalanx Capital Management HK in Hong Kong. "However, these same policies could impede Malaysia in the long term. The government must make changes soon."

Najib and his advisers say changing the pro-Malay rules will level the economic playing field, encourage investment from both inside Malaysia and abroad, and promote ethnic harmony. Najib, 57, has already eased affirmative-action rules governing overseas investors, initial public offerings, and property purchases. Mark Mobius, the emerging-markets authority at Templeton Asset Management, is impressed: "Malaysia is going through a transformation with the political changes that we've seen," he says.

Najib's reforms are opposed by some politicians who helped him gain power, including ex-Premier Mahathir Mohamad. At a March rally, former Deputy Law Minister Ibrahim Ali brandished a traditional *kris* dagger as the crowd chanted "Long live the Malays." A spokesman for Ali's group says the dagger display was not meant to incite violence. Najib's Malay opponents say they are protecting the constitution and that his father's goals have not yet been reached. "Malays have not gained for themselves the 30 percent target in corporate ownership even," Mahathir blogged on Aug. 9.

Analysts wonder if Najib has the political capital to carry through. "Najib appears to be saying all the right things, but the actions of many within UMNO [the main Malay political group] are not necessarily in the spirit of what [he] is saying," says Stephen Hagger, head of Malaysian equities for Credit



FROM TOP: PRNEWSFOTO/AP PHOTO; JACK OOI/MALAYSIAN INSIDER

Suisse Group. It will be up to the politicians and civil service to implement Najib's plan, Hagger adds. "This is where our confidence falters."

Some locals are voting with their feet. Leslie C., an ethnic Chinese, moved to Singapore in June. "I don't think any politician will be different," says Leslie, 36, who doesn't want his full name reported. "I want a better future for the kids, an opportunity for them to start on even ground." —*Shamim Adam*

The bottom line *As part of a drive to boost economic growth, Malaysia's Prime Minister is trying to dismantle policies that favor ethnic Malays.*

Renewable Energy

For Europe Inc., Dreams Of Sahara Sunshine

- A consortium wants to invest $560 billion in Sahara solar panels
- "The project will happen. It's likely to be a series of small projects"

The Sahara gets twice as much sunshine annually as most of Europe. The European Union wants to get 20 percent of its electricity from renewable sources within a decade. So why not build solar power plants across North Africa and ship the electricity north via power lines under the Mediterranean?

Over the past year, more than 30 European blue chips have joined the Desertec Industrial Initiative (DII), a consortium that seeks a $560 billion investment in North African solar and wind installations over the next 40 years. The DII is completing a feasibility study and hopes to be building its first power plant by 2013. A separate group of companies called Transgreen, formed in July, is working on plans for the thousands of miles of high-voltage lines needed. The challenge is immense: Winning agreement from very different countries on two continents to carry out one of the biggest infrastructure projects in history.

Many backers are eager for a share of rich construction contracts. They include engineering outfits such as Germany's **Siemens** and Swiss-Swedish group **ABB** and solar companies **Abengoa Solar** of Spain and **First Solar** of Arizona. Giant Italian utility **Enel** wants to rely less on Russian gas, and German insurer **Munich Re** sees the project as a hedge against damage from global warming. "We are creating a large network of allies with complementary interests," says the DII's boss, a former Dutch utility executive named Paul van Son.

There's little doubt that Sahara sun can power Europe. Cables already carry electricity under the Mediterranean—though the power flows from Spain to Morocco. And after years of false starts, scores of large-scale solar power plants are being built or in advanced planning stages, from the American Southwest to the Mideast. "There is now a good track record," says Bernd Utz, head of Siemens' renewable energy division.

100
GIGAWATTS

Projected power production of Desertec solar farms

With the technology the consortium plans to use, solar-powered electricity costs at least four times as much per kilowatt-hour as power from coal- and gas-fired plants, according to Bloomberg New Energy Finance, an analysis group. Governments have used subsidies to support alternate energy companies until their costs are more in line with oil and gas. The U.S. in July awarded a $1.45 billion loan guarantee to lower financing costs for the planned Solana power plant in Arizona, at 280 megawatts one of the world's largest.

The Sahara project envisions generating capacity equal to almost 400 Solanas. Where would the financing come from? The DII and Transgreen member companies so far have put up less than $10 million for feasibility studies. They want Europe's governments to require utilities to pay more for Sahara-generated energy, a preferential arrangement that European countries use to spur solar and wind energy development at home.

Trouble is, Germany and Spain are reducing these rates, which the utilities often pass on to customers. The depth of political support in North Africa is another issue. Morocco, Tunisia, and Egypt back the project. Algeria wants to develop solar plants on its own. Some European critics, meanwhile, see a case of overreach. "European countries can develop faster and cheaper than Desertec a renewable energy supply from indigenous sources," says Hermann Scheer, a member of the German Bundestag who heads Eurosolar, a Bonn-based solar research and advocacy group.

Even Europe's sunniest regions, though, don't get enough sun to generate power as efficiently as in North Africa, says Abengoa Solar Chief Executive Officer Santiago Seage. The Sahara's ample space is crucial since plans call for fields of mirrors, totaling hundreds of square miles, at more than 20 locations. The mirrors would concentrate the sun's rays to create heat and drive turbines—a technology known as concentrating solar power (CSP) that allows



Rendering of a solar plant Abengoa is helping to build in Abu Dhabi

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heat to be extracted and stored gradually so electricity is generated continuously. Plans also call for solar photovoltaic and wind turbine generators, whose energy costs less to produce than CSP yet don't offer storage capacity. "For utilities, CSP is a much more robust product," Seage says.

As the consortium feels its way forward, some European countries could strike bilateral deals with North African suppliers. Morocco, for example, has announced plans to build solar plants for its own use. Since Morocco's government can't afford the subsidies that would make solar power feasible inside its own borders, it might team up with Spain or France to help with financing in exchange for a share of output, suggests Logan Goldie-Scot, a London-based analyst with Bloomberg New Energy Finance. "The [Desertec] project will happen," he says, yet "it's likely to be a series of small projects." —*Carol Matlack*

The bottom line *Europe is pursuing a plan to tap the solar energy of the Sahara. Financing is a hurdle, as is securing cooperation from many players.*

Health Care

In Asia, Public Health Care Gets Less Public



▸ Governments want the middle class to pay their way

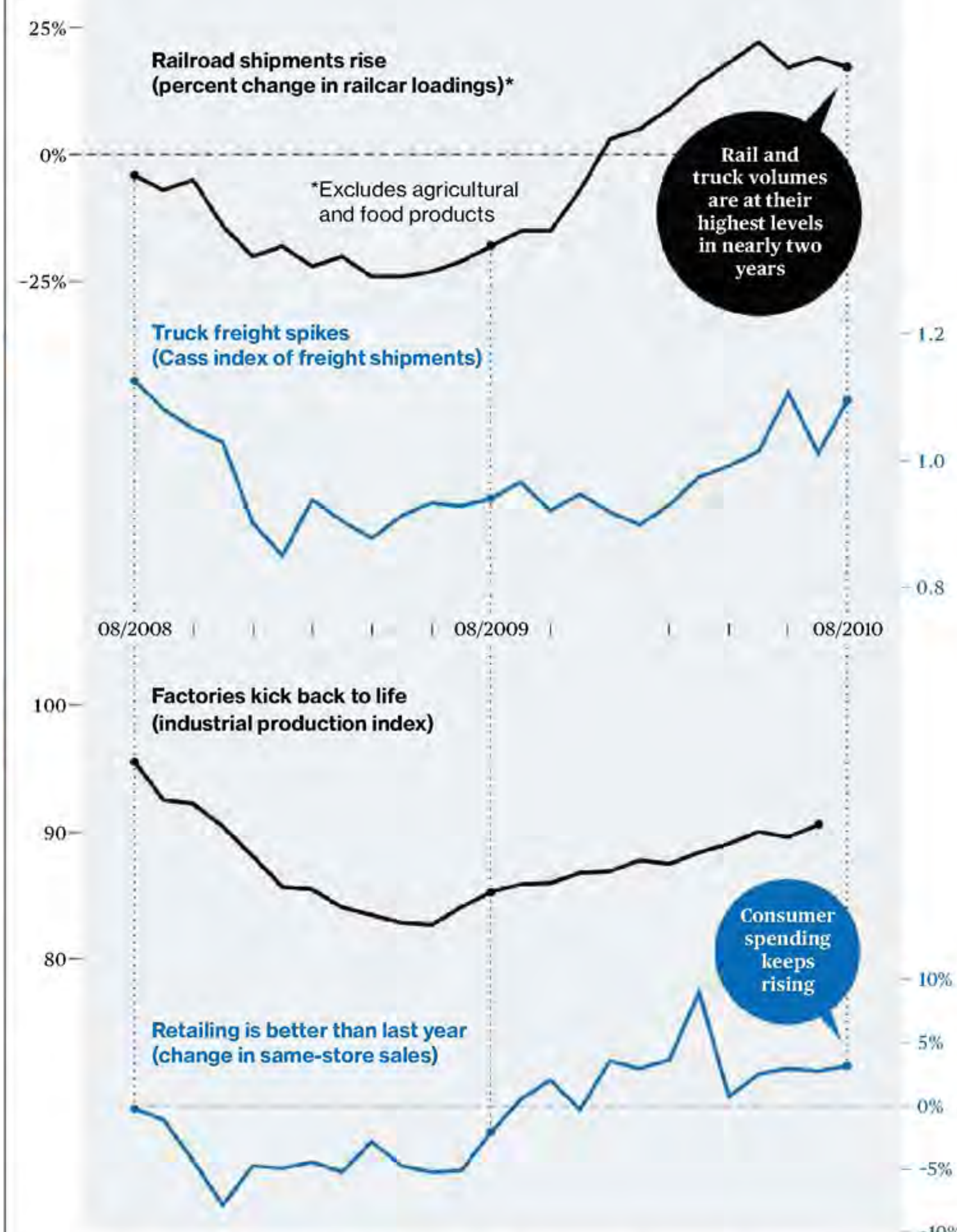
▸ "We do not dangle the myth of free health care"

Policymakers in Southeast Asia are developing a new way to contain public health costs: Make more of their citizens pay their own way. Most countries in the region developed national health-care networks decades ago, and they are not about to shut down their publicly funded hospitals. Regional policymakers, though, are watching with concern the rising cost of health care in the U.S. and other developed coun-

Indicators

Where's the Double Dip?

While investors fret about the chances of renewed recession, truckers remain busy delivering more goods to U.S. retailers, whose sales grew 3.2 percent in August from a year earlier. And railroad shipments are still rising, as manufacturing rose to its highest level in nearly two years. This all sounds like more proof of continuing recovery. Here's a look at how truck freight, railcar loadings, manufacturing, and retailing are doing. —*Anthony Feld*



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Global Economics

tries. Officials in Kuala Lumpur, Singapore, Bangkok, and elsewhere worry they'll face a similar squeeze unless they get costs down now.

So governments are starting to require citizens whose income exceeds certain limits to pay for their own health insurance. They also want private-sector hospitals to take some of the heat off the public networks. "There's a concerted effort to make sure the rich consume their health care in private hospitals," says Vincent Chin, managing director for the **Boston Consulting Group** in Kuala Lumpur and adviser to the Malaysian government on health-care policy. At the turn of the century, only 20 percent of Malaysian patients used private-sector hospitals, he says. The government wants that number to hit 40 percent by 2020, according to Chin.

Singapore is aggressively promoting the switch away from government hospitals by adjusting the amount Singaporeans pay for procedures based on their income. Thanks in part to this change, half of Singapore patients now use private-sector hospitals, up from 20 percent in 2007. "We do not dangle the myth of free health care. Instead we argue for individual responsibility and some co-payment," Health Minister Khaw Boon Wan said at a health-care summit in Singapore in July. "Nobody is denied good care. But if you demand nonessential services, please pay."

This approach has caught the attention of hospital operators. Kuala Lumpur-based **Columbia Asia**, which is backed by U.S. investors, has 17 centers in India, Malaysia, Indonesia, and Vietnam and is opening another 17, all of them catering to local patients. "The demand is tremendous—and it's not five years down the road, it's today," says Daniel R. Baty, Columbia Asia's largest shareholder. "Clearly, governments in these countries have made the decision they are not going to be involved in health care." Columbia's no-frills service is less luxurious than some other private hospitals yet more efficient than the public networks.

50%

Share of Singaporean population that uses private hospitals

Other hospital companies anticipate a flood of new business. India's **Apollo Hospitals** has opened six new facilities with a total 750 beds in the past year. **Bangkok Chain Hospital**, one of the largest operators in Thailand, is adding two new hospitals. In August, Malaysia's state-controlled investment company, **Khazanah**, took control of Singapore-based **Parkway Holdings**, which has more than 3,400 beds around the region. Indian operator **Fortis Healthcare**, which lost out to Khazanah, still wants to make acquisitions, CEO Bhavdeep Singh said on Sept. 2.

Privately held Gleneagles Intan Medical Center in downtown Kuala Lumpur is a good example of what middle-class patients can get. Shopkeeper Low Cher Yet recently transferred his 78-year-old mother to Gleneagles Intan after waiting months for results of kidney and liver tests by government-paid doctors. "Yes, it is expensive in a private hospital like this," he says. "But at least it is good."

The Chinese government, which has controlled almost all health care in the country for decades, may soon follow the lead of Singapore and Malaysia. The Health Ministry and other government departments have agreed in principle to open the market to foreign-owned hospitals, according to a Sept. 7 report in *China Business News*, a newspaper published by state-run Shanghai Media Group. "You have this push by governments to essentially create demand for private hospitals," says BCG's Chin. Hospital operators "have almost an assured growth model." ⓑ —*By Bruce Einhorn, with Chong Pooi Koon*

The bottom line *Health-care policymakers in Asia are encouraging more affluent Asians to use private hospitals and their own funds.*

Quoted

"In the latest employment report, for anybody who goes and looks in the details, long-term unemployment actually declined in August. For people who think that nothing is improving, it's hard to explain that."
—Austan Goolsbee, member of the Council of Economic Advisers



Tom Keene's EconoChat

Tom talks with **Philip Verleger**, president of energy consultants PKVerleger, on oil and the economy.

Phil, what will oil do?
I approach oil from the macro point of view, and I'm quite pessimistic as to the economic outlook for the U.S. This depression probably will look more like what historians call the long depression of 1873. It lasted about 70 months. Growth did not plunge like in the '30s, but it was terrible. And if you dig through the data, you find energy prices just plunged.

What's coming for oil in the short run, over the next quarter or two?
I think we will probably trend down towards $60, but I do not see anything collapsing in the third quarter. My guess is prices really fall dramatically—if they are going to fall—in January, February, and March because that is when I think we're going to see the full impact of the housing situation. If we have a seriously hung Congress, there is the potential for a real catastrophe.

What is housing's impact on oil?
We always talk about the summer driving season. Well, it turns out it is the summer construction season that counts. If you go back and look at the data over the last 20 years, it is construction that really produces the extra gasoline demand. Construction workers do not drive Smart cars, they drive trucks. So with housing starts falling below 500,000 units instead of 2 million, and with the slowdown in commercial construction, roughly half a million barrels a day have been taken out of U.S. demand. That demand is not going to come back until we work off this inventory of housing. ⓑ



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A Whopper of a Challenge For Burger King's Buyers

▸ **3G Capital and its Brazilian backers will need to do more than just cut costs**

▸ **"It's not enough these days to be an alternative to McDonald's"**



When it comes to the pitfalls of operating a fast-food chain, **Burger King** has experienced them all: falling profits and sales, angry franchise owners, mediocre innovation, growing competition, and a razorlike focus on the very customers who have been hardest hit during the recession. So when a little-known investment outfit called **3G Capital** said it would buy the Miami-based chain for about $4 billion on Sept. 2, an obvious question was: why?

Burger King may be the world's No. 2 hamburger chain, but it's a distant runner-up, with 12,174 restaurants worldwide vs. 32,466 for **McDonald's.** McDonald's averages about twice the sales volume per U.S. outlet, and its stock has far outperformed that of its rival on the strength of new products such as coffee drinks and smoothies. Burger King, in contrast, has seemed fixated on hawking a $1 double cheeseburger—now $1.29 following a bitter lawsuit with franchisees who claim it's a money loser. The chain has also narrowed its target audience, chasing young men with cheeky ads, while McDonald's has gone for broad family appeal.

Sources close to 3G say the partners are betting they'll be able to trim costs (though no more than 10 percent) and ramp up international expansion to make the deal work. (3G has also been in the news lately as the employer of Marc Mezvinsky, Chelsea Clinton's new husband.) Most of 3G's money comes from three Brazilian billionaires: Jorge Paulo Lemann, Marcel Herrmann Telles, and Carlos Alberto da Veiga Sicupira. They've offered investors $24 per share, 46 percent more than Burger King's Aug. 31 closing price. If the deal goes through—which is likely, given the support of the board and the private equity firms that hold 31 percent of shares—the chain will go private for the second time in less than a decade. (TPG Capital, Goldman Sachs Capital Partners, and Bain Capital bought Burger King from Britain's **Diageo** for $1.5 billion in 2002 and took it public in 2006.) Investors then expect 3G to expand in faster-growing markets such as Latin America and Asia.

Burger King declined to comment beyond public releases. In a letter to franchisees, 3G Capital Managing Partner Alex Behring, who will be co-chairman of the chain once the deal closes, wrote about 3G's "hands-on management approach" and intention to invest in the brand.

Yet the first priority, given the Brazilian investors' past record, is likely to be a rapid-fire push to cut costs. That's certainly been the case at **Anheuser-Busch Inbev**, the world's largest brewer, which Lemann's group helped create when **InBev**, the Belgian brewer it had a stake in, completed a hostile takeover of the American brewer two years ago. Lemann, Telles, and da Veiga Sicupira all sit on the board of the merged company. After the merger, former Anheuser-Busch employees soon lost perks ranging from business-class flights and BlackBerrys to free cases of beer. About 1,400 quickly lost their jobs. Gone were the lush furnishings and private planes. Even Brazilian-born Chief Executive Officer Carlos Brito flies economy class.

Through a spokesman, 3G issued a statement saying "any potential opportunities for cost efficiencies will be managed with the overall benefit of the company in mind, without compromising the franchisees." ➜

ILLUSTRATION BY STEVE CAPLIN. KING: JENNIFER GRAYLOCK/AP PHOTO; BUNS: GETTY IMAGES



2002
Diageo sells Burger King to private equity investors for $1.5 billion

2006
Burger King goes public, after an IPO that values the company at about $2.3. billion

A person familiar with 3G's plans for Burger King says the company is ripe for cost-cutting, especially at company-owned restaurants, which are typically less profitable than those operated by franchisees. This person says labor costs are high at these restaurants, as is overhead at the Miami headquarters.

2009
BK adds the Buck Double to its Value Menu, sparking lawsuits from franchisees

Burger King has had a turbulent history. Under Diageo, a former chain executive says, it was largely left alone and milked for cash, with the unit treated as an outpost for leaders in training. Once it moved into private equity's hands, the focus switched to differentiating the brand from McDonald's, with a focus on young men, for whom high-calorie burgers and ads with dancing chickens or a creepy-looking king seemed cool. The investors also focused quickly on returns: They initially kicked in $325 million of their own money, collecting more than that in special dividends. With added fees, funds from the initial public offering, and proceeds from the current sale, Burger King has been an investment winner even as its sales lagged behind rivals.

Franchisees say they've shouldered the burden of efforts by Burger King management to keep the chain competitive amid the recession. That includes the controversial double cheeseburger. "Margins were crushed," says Steve Lewis, who operates 36 Burger King franchises in the Philadelphia area. Moreover, he says, sales of new, premium-priced menu items like the Steakhouse XT burger haven't kept up once the brand stops advertising them. "Overall menu development has been horrible," Lewis says, adding that the chain has come up with little besides the bargain burger to woo customers into stores: "We disregarded kids, we disregarded families, we disregarded moms." Franchisees have also disregarded their aging restaurants, says Jordan Krolick, president of consulting firm Tound & Drowth, who has held senior positions at Arby's and McDonald's. "You can change the menu, you can change the advertising, but you're not going to get customers to see those changes without fresh, new, clean-looking facilities," he says.

Brand experts add that the chain doesn't match McDonald's for customer loyalty. Chris Malone, chief advisory officer at Relational Capital Group, recently completed a study that showed McDonald's significantly outperformed in both "warmth" and "competence" in consumers' minds. He argues that Burger King has "put a lot of energy into gimmicky advertising" at the expense of products and service. Mark Kalinowski, an analyst at Janney Montgomery Scott, adds that the brand simply isn't unique in consumers' eyes, noting "it's not enough these days to be an alternative to McDonald's."

2010
BK announces sale to investment firm 3G Capital for $4 billion

Despite its challenges, there are some positives for 3G. Because the chain has stable cash flow and modest capital investment needs, 3G was able to get **JPMorgan Chase** and **Barclays** to lend it about $2.8 billion of the $4 billion price. It's also taking over at a time when Burger King is innovating more: On Sept. 7, the chain announced nine new breakfast items, including blueberry biscuits and a pancake platter. And 3G's experience and connections in Brazil could help Burger King expand in that market, where many U.S. chains have had difficulty finding qualified franchisees.

That won't happen overnight. Yet, sources close to the company say, unlike typical private equity firms that often try to squeeze a return on their investment in five years, 3G's investors are willing to wait a decade to get their money out. —*Diane Brady, with Burt Helm and Zachary R. Mider*

***The bottom line**: Burger King is facing its second private equity buyout in a decade. The chain's new Brazilian owners likely won't see a quick turnaround.*

Quoted

"It's a nice try, but austerity is only cool for a while."
—Frits van Paasschen, chief executive officer of luxury hotel operator Starwood Hotels, which has seen revenues rise this year after the economic slump caused travelers to cut back in 2009





FROM LEFT: JONATHAN FICKIES/BLOOMBERG; ANTHONY J. CAUSI/ICON SMI

Retailing

Can Ultimate Fighting Head-Butt Shoppers?

- A brand veteran bets big on the rough-and-tumble cage sport
- Respect is growing for fighters as "athletes, not just street brawlers"

Financier James "Jamie" Salter has prospered over the years snapping up brands, including well-known names like Linens 'n Things and Polaroid. Now he hopes to do the same selling cage-fighting T-shirts and "An Expression of Combat" school folders. Salter, 47, has agreed to buy three brands that cater to fans of Ultimate Fighting Championship, the mixed martial arts league that attracts millions of viewers each year to pay-per-view bouts that take place in a cage called the Octagon.

Salter's Toronto-based **Authentic Brands Group** is betting the three labels–TapouT, Silver Star Casting, and Hitman Fight Gear–are ripe for expansion as mixed martial arts continues to gain mainstream acceptance. Retailers **J.C. Penney**, **Kohl's**, and **Macy's** already sell some of the goods, and the new owners and founders are looking to add sales both at home and in overseas



The sport has elements of jujitsu, boxing, and wrestling

markets such as Brazil. "These are some of the most exciting brands I've seen in years," Salter says. "The popularity of mixed martial arts and the UFC is soaring around the world. The last time I saw a sport with this much potential was 20 years ago with snowboarding."

Grand Terrace (Calif.)-based TapouT, the largest of the three brands, was founded in 1997 by three mixed martial arts fighters. (A tap out is a surrender sign.) It sells a range of merchandise, from $24 logo T-shirts to a $950 bed with its signature cage design. TapouT generated almost $200 million in sales last year, according to President Dan "Punkass" Caldwell. He says he can't count how many suitors he turned away before Salter came calling. "We love this brand so much," Caldwell says. "I have it tattooed on the back of my neck." (He does, literally.) Caldwell, 39, says he agreed to the deal in part because Salter knows the clothing industry and welcomes the founders' involvement.

Ultimate fighting, which combines Far Eastern martial arts styles with elements of boxing, wrestling, and the Brazilian form of jujitsu, was once considered so violent that in 1998 Arizona Senator John McCain tried to ban what he called "human cockfighting." Since then the UFC has added some restrictions, including "no knees to the head of a downed opponent" and "no groin or throat strikes." Says Tim Pogue, Authentic Brands' chief marketing officer: "People are starting to respect these athletes as athletes, not just street brawlers."

Amid signs of mixed martial arts' growing cachet, apparel maker **Under Armour** last year signed a multiyear endorsement deal with UFC welterweight champ Georges St-Pierre. In January, Flash Entertainment, a unit of **Mubadala Development**, Abu Dhabi's investment arm, announced it had bought a 10 percent stake in Las Vegas-based **Zuffa**, which owns the UFC and World Extreme Cagefighting. Behind all the interest: a growing fan base. Mixed martial arts fans are younger and more affluent than the general population, according to researcher Scarborough Sports Marketing. More than 75 percent of fans, it says, are male.

Salter's history with extreme sports dates back to **Ride Snowboards**, which he co-founded; it went public in 1994. Later, at Toronto private equity shop Hilco Consumer Capital, he helped oversee the purchase of Sharper Image and brands associated with the estate of Bob Marley. Earlier this year, Salter left Hilco and started Authentic Brands with backing from Leonard Green & Partners, the investment firm with stakes in **Sports Authority** and **Whole Foods Market**. The mixed martial arts acquisitions are the company's first. Salter wouldn't say how much he's paying for the brands.

Because the UFC has "done such an extraordinary job of building their brand, retailers–and others–will want a piece of the action, especially as global opportunities increase," says David Carter, principal at the Sports Business Group consulting firm. Last year TapouT introduced a midpriced line, TapouT MPS, to expand beyond department store sales. It's also weighing a discount line that could sell at mass chains such as **Wal-Mart Stores**, Caldwell says. The Hitman brand sells at **Sears Holdings**' Kmart stores. Salter predicts he'll double revenues in the next two years.

The founders had already branched out, with plans for more TapouT gyms, an energy drink in Canada, and a unit that makes movies about the sport. They're selling combat cages similar to those used in UFC bouts to fitness centers and others, including a Saudi prince who flew the founders to the Middle East earlier this year, Caldwell says.

He'll remain TapoutT's president, while co-founder Timm "SkySkrape" Katz will stay on as creative director. They'll be joined at Authentic Brands by Luke Burrett, who started rival apparel maker Silver Star Casting in 1993 after detailing cars in Southern California. Burrett, who runs the company with his wife, Charis, a former *Playboy* model, met Salter at a UFC party earlier this year. "We've been fierce competitors with TapouT, and now that we're under the same roof we'll be unstoppable," Burrett says.

$200 MILLION

Sales of TapouT brand merchandise last year

Ira Mayer, publisher of *The Licensing Letter,* doesn't think recent controversy around the safety of the sport will hurt the brands' sales. "Look what's going on with football," he says. "They're finally acknowledging these guys are getting concussions. Is that going to stop anybody from carrying the [gridiron] merchandise? No." —*Lauren Coleman-Lochner and Jonathan Keehner*

The bottom line *Brand buyout veteran Jamie Salter is betting on future growth of clothing brands tied to the ultimate fighting league.*

Enterprise

A High-End Handler for Deep-Pocketed Patients

- A startup links the seriously ill with global experts on their malady
- "Having a group like ours scour the earth ... improves quality of care"

This spring, an athletic young nonsmoker living in Greenwich, Conn., was diagnosed with rapidly progressing Stage 4 lung cancer. It's not just his age—he's 50—and his seemingly robust health that made the case unusual. According to his physician, Barry Boyd, the patient hired a new boutique medical consultancy called **ExpertConsensus**, which, for a fee of $20,000 or more, convenes panels of top specialists to generate treatment plans for people with confounding illnesses.

Although an ExpertConsensus client and the specialists never meet in person, Boyd says that his patient feels he's in good hands: "We're talking to the head of lung cancer at MD Anderson [Cancer Center at University of Texas], very senior oncologists from Sloan-Kettering, Johns Hopkins, Vanderbilt." Those physicians recommended molecular profiling to target specific mutations for the man's cancer, which is now in remission.

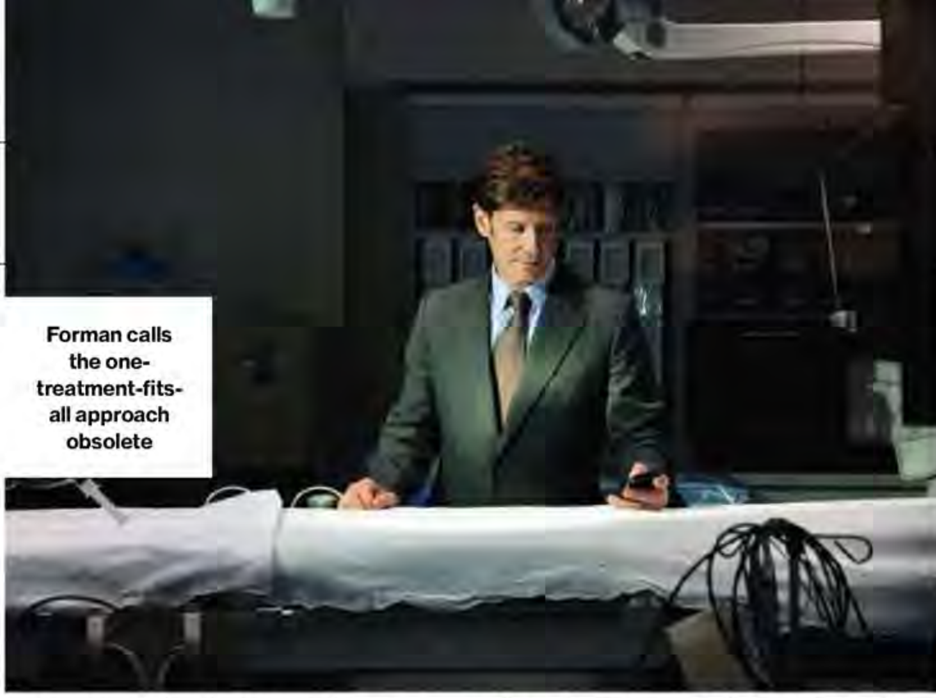
The business of second opinions is nothing new. At Cleveland Clinic, one of America's most prestigious medical centers, $565 and the submission of relevant medical documents will get you a specialist evaluation online. And **Best Doctors**, a Boston-based provider of medical consultation used by employers such as **PepsiCo** and **Boeing**, offers a case review and access to 50,000 peer-reviewed specialists at no cost to the patient. But ExpertConsensus Chief Executive Officer Richard D. Forman maintains that his nine-month-old company has "no direct competitors" because it performs the dirty work of gathering documents, recruits top doctors, and minimizes institutional bias through its panel approach.

The goal: bypassing the time-consuming process of getting second and third opinions and making sense of divergent recommendations. ExpertConsensus says it gives clients access to the latest scientific advancements—some too recent to have become protocol, even at top medical centers. "To expect that your primary-care physician can keep on top of what's going on in this world is really unfair," says Forman, adding that the one-treatment-fits-all approach to medicine is obsolete given findings that each tumor and illness is distinct. "Having a group like ours scour the earth for different opportunities and experts really improves quality of care," he says.

ExpertConsensus is modeled after the work of its chairman, Robert C.J. Krasner, a former attending physician for the U.S. Congress who once served as a doctor for Ethiopian Emperor Haile Selassie and now attends to executives at top companies. He began convening

PHOTOGRAPH BY LAUREN FLEISHMAN FOR BLOOMBERG BUSINESSWEEK


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Forman calls the one-treatment-fits-all approach obsolete

expert panels for his patients four years ago, tapping his extensive connections. Serial entrepreneur Forman, co-founder of **Register.com** and **Vitals.com**, approached Krasner last December with the idea to turn that approach into a real business. Co-founder Jean-Luc Neptune, a physician with an MBA, previously launched a company that connects patients with clinical trial opportunities.

ExpertConsensus compiles a client's medical documents, summarizes the relevant information, and then enlists three to five prominent doctors per case. During a teleconference, an on-staff physician walks the experts through the client's X-rays, labs, charts, pathology, and diagnosis, while they examine the documents via computer. The company logs their discussion and passes the resulting treatment plan to the treating physician. Later there's at least one follow-up panel review. Since January, ExpertConsensus has taken on 12 clients. Most are cancer patients, but there are also Parkinson's disease and chronic fatigue cases. The founders declined to disclose company revenues, but they envision increasing their client base into the "hundreds, or even thousands," says Neptune.

The company's strategy and pricing has raised eyebrows among some in the medical world. Dr. Robert Wachter, associate chair of the University of California at San Francisco's Medicine Dept., doubts whether top experts have time to give the panel cases adequate attention. And Evan Falchuk, chief operating officer of Best Doctors, questions whether ExpertConsensus has a viable business model: "You could buy a very nice insurance policy for a family of four with that kind of money," he says.

Beyond serving wealthy clients, Forman hopes the panel outcomes will have a trickle-down effect, popularizing new approaches by

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exposing treating physicians like Boyd to recent advances in medicine. But Forman also points out that ExpertConsensus is a business, that his company deals with "clients, not patients," and that, although health care in America is a mess, his company is "not meant to solve a public policy issue."
—*Caroline Winter*

The bottom line *ExpertConsensus assembles panels of leading doctors to consult on tough cases for a $20,000 minimum charge.*

Airlines

British Airways Seeks a Bride to Regain Altitude

- ▶ After taking on its unions, the airline needs a global partner to grow
- ▶ "Why would an Asian airline give up some of its growth" to BA?

British Airways Chief Executive Officer Willie Walsh, the tough 48-year-old Irishman known for his uncompromising stance in BA's first cabin crew strike in 13 years, has spent more than a year battling his restive flight attendants in an attempt to trim costs. That would make BA a more attractive partner in the coming round of global airline mergers Walsh believes is both necessary and inevitable. Yet the two carriers Walsh wants most to wed, **AMR**'s American Airlines and **Qantas Airways** of Australia, now seem out of reach. That's pushing him to consider a series of smaller acquisitions to piece together the global network he so desires.



Walsh: Deals with Qantas and American appear less likely

ANDREW WINNING/REUTERS

In July, European regulators approved Walsh's $7 billion takeover of Spain's **Iberia**. He's formed a task force at BA to identify intercontinental merger targets. "We want to make sure we're capable of pursuing further consolidation immediately," Walsh says. Earlier this summer, BA and American won antitrust approval for a joint venture that would allow them to coordinate fares and schedules and share revenue on their transatlantic flights. That's far short of the benefits the pair would realize in a full merger, currently barred by the 25 percent cap placed on foreign ownership of a U.S. airline. Walsh says he'd "like to go further" with American, but he doesn't see the ownership cap changing within five years.

He says BA is also unlikely to revisit a deal with Qantas, with which it held talks in 2008, since CEO Alan Joyce is less merger-minded than predecessor Geoff Dixon, who conducted merger discussions with the U.K. airline before retiring in November 2008. Under Joyce, Walsh says, the Australian carrier is focused on growth in Asia through its low-cost Jetstar Airways unit rather than the kind of globe-spanning expansion Walsh covets.

With his preferred partners off the table, Walsh says he'll seek other merger partners among fellow members of the Oneworld alliance, a consortium of airlines that combines their route networks, marketing efforts, and frequent-flier programs to offer greater choice of destinations and frequency to their customers. Oneworld has 11 member airlines, including BA, **Cathay Pacific Airways**, **Finnair**, and **Lan Airlines** of Chile, as well as American and Qantas.

Chris Tarry, an independent airline analyst, says Walsh's biggest problem may lie in convincing allies of the merits of a merger with a carrier rooted in the mature markets of Europe and the U.S. "I can't see who is going to come to the party," Tarry says. "Why would an Asian airline give up some of its growth in a faster-expanding market? They would want to merge with somebody in their own region with better prospects."

Walsh says British Airways would be interested in bidding on two **Lufthansa** affiliates if they come up for sale: **bmi**, the U.K. carrier that's the second-biggest holder of takeoff and landing slots at London's busy Heathrow Airport after BA, and New York-based **JetBlue**, 16 percent owned by Lufthansa. The German carrier declined comment.

Airline Traffic Rankings by Total Scheduled Passenger-Kilometers Flown, 2009

Over the last 10 years, mergers have put global rivals ahead of British Airways



DATA: IATA WORLD AIR TRANSPORT STATISTICS REPORT, 54TH EDITION

*MERGER PENDING



Obama takes to the highway page 30 ►

For now, Walsh is busy identifying possible savings from the BA-Iberia marriage. He said he'll seek about €400 million ($508 million) in annual benefits, one-third from revenue gains and the rest from savings, such as combining computer systems and joint purchasing of new aircraft and spare parts.

Still, the merger hasn't won universal acclaim within the industry, and Maurice Flanagan, executive vice-chairman of Dubai-based **Emirates**, the largest airline by international traffic, says it will be tough to achieve the targeted economies of scale. "The route structures complement each other, with British Airways flying to places that Iberia doesn't and vice versa," Flanagan says, "but complexity is the bugbear of our business, and this merger looks rather too complex." *—Chris Jasper and Steve Rothwell*

***The bottom line** Walsh has fought to reduce employee costs. He may have waited too long to win a global merger partner.*

Medical Devices

Stents: Now You See 'Em, Now You Don't

► **New devices that dissolve inside the heart could cut the risk of clots**

► **"It appealed to me that I wouldn't have hardware in my body"**

John Lamb, a retired auto mechanic in New Zealand, was the first patient to get an **Abbott Laboratories** experimental heart stent, to treat worsening chest pains. He now has nothing to show for it–just as doctors intended.

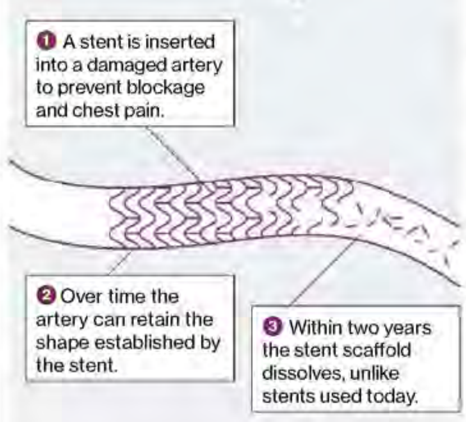
In March 2006 surgeons inserted Abbott's device into Lamb's coronary artery to push back fatty plaque and allow blood to flow freely to his heart. Made of a compound called polylactic acid, over the next two years the device dissolved into lactic acid (a naturally occurring chemical in the body), leaving behind what appears to be a healthy artery. "It made an immediate difference," says Lamb, now 69. "It appealed to me that it dissolved and I wouldn't have a piece of hardware in my body."

Abbott believes the device could capture a big share of the $4 billion-a-year stent market, cutting into sales of Abbott's Xience models and rivals from **Johnson & Johnson, Boston Scientific**, and **Medtronic**. "If the results for the next 100 patients or 1,000 patients continue to demonstrate what we are seeing in these first patients, it will truly become the next revolution in interventional cardiology," says John M. Capek, Abbott's executive vice-president of medical devices. The dissolving stent is designed to have all the benefits of today's devices without leaving behind the metal mesh used in current stents, Capek says. It may be sold in Europe within 18 months, putting it at least three years ahead of similar products that competitors are developing, he adds.

Abbott, based in Abbott Park, Ill., has a way to go before the new device gains wide acceptance. The company had to redesign the stent last year after engineers found it didn't keep the artery open as well as expected during studies on humans conducted in Europe. It will be difficult for Abbott to create a device that's strong enough to prop open an artery using materials that are less robust than the metal typically found in stents today, says Laura Mauri, a cardiologist at Harvard Medical School. "They've really just passed the first hurdle," Mauri says. "Before it's used in the U.S., we'll need to see long-term results."

The disappearing devices might solve a problem that has hampered sales of the current generation of stents: the formation of potentially fatal blood clots months or years after implantation. Many of today's stents are coated with drugs to keep scar tissue from attaching to the metal tubes. The scarring often causes the arteries to narrow again, requiring further treatment. Arteries, though, never fully heal with a drug-coated device inside, which can lead to blood clots and heart attacks.

How Abbott's Vanishing Stent Works



While there haven't been any cases of clots in the 150 or so people who have received Abbott's new stent, it's still not clear whether dissolving stents offer a lower risk of clots and if they will keep arteries clear for as long as existing devices do. "The concept that a stent could go away and your artery can reheal to a normal state is a little bit fanciful," says Spencer B. King, president of the Heart and Vascular Institute of St. Joseph's Hospital in Atlanta. "But it seems to happen."

At least two smaller companies are working on similar devices. San Diego-based **Reva Medical** has developed a stent that starts to dissolve after 90 days. The company redesigned its prototype after some patients who received it in a 2007 study ended up needing new stents. Next year the company aims to start trials and studies that could be used to gain approval for its stents in Europe. Another device, made by Berlin-based **Biotronik**, has been implanted in a patient in Germany, Biotronik says. Medical centers in the Netherlands, Belgium, and Switzerland are participating in Biotronik's research and will enroll additional patients, the company says.

Larger rivals are also working on dissolvable stents, though most such efforts are aimed outside the heart. Since the dissolving stents tend to be bulkier than metal ones (to provide the strength needed to prop open blood vessels), some researchers believe they're more suitable for the larger arteries in the legs, where stress and pressure on the vessel can cause metal stents to fracture. Since removing the devices is difficult, an absorbable stent may be ideal, according to Johnson & Johnson and Medtronic. "The legs, where the arteries run close to the surface of the skin, present anatomical dynamics that may warrant this kind of biomaterials innovation," says Sean Salmon, general manager of Medtronic's coronary and peripheral division. "The clinical need to reduce pain and amputations remains largely unmet." *—Michelle Fay Cortez*

***The bottom line** Abbott's dissolvable stent appears to reduce the risk of blood clots, though questions about the technology remain.*

DARREN HAUCK/EPA/CORBIS

Aviation

Tiny Regional Jets Fly Toward the Scrap Heap

▶ Born in an era of cheaper fuel, the 50-seaters fail today's economics

▶ "These are litters of aluminum kittens. Nobody wants them"

Small regional jets, with their cramped aisles and small overhead space, flew high for more than a decade. No more. The once-prized 50-seat jets are being culled from U.S. fleets as higher fuel and maintenance bills make them too expensive. The Comair unit of **Delta Air Lines**, a pioneer in the use of small jets in the 1990s, said on Sept. 1 it will drop three-fourths of its **Bombardier** 50-seaters. That will leave it with only 44 by 2012; in 2008, it had 144. And in June, **AMR**'s American Airlines said it may divest its American Eagle unit and its 214 planes, mostly tiny jets made by **Empresa Brasileira de Aeronáutica**.

By 2015, U.S. carriers will have only about 200 jets with 50 or fewer seats, down from about 1,200 today, predicts Michael Boyd, president of consultant Boyd Group International. More than 80 have already been scrapped in 2010, he says: "These are litters of aluminum kittens. Nobody wants them."

Regional jets fly twice as fast as turboprops and were affordable when oil was about $20 a barrel. The drawback: spreading costs over about a third as many seats as in a **Boeing** 737. With oil averaging $77.93 this year through Sept. 2, up 39 percent from 2009, airlines now favor jets from Embraer and Bombardier that carry at least 70 people.

Operating tiny jets "makes sense if you're focused on share, hub preservation, and other really outmoded concepts," says Richard Aboulafia, an analyst at Teal Group. "But if you're focused on profitability, then 50-seats begin to look awful." Piper Jaffray's Douglas Runte says a recent auction of used 50-seat jets posted sales of less than $3 million each for planes appraised at up to three times as much. ⓑ —*Mary Jane Credeur and Mary Schlangenstein*

The bottom line *Airlines embraced small regional jets when oil prices were low. With costlier fuel, demand for jets with fewer than 50 seats has tanked.*

Briefs

by Ira Boudway and Caroline Winter

Nokia
The Finns' answer to the iPhone



Nokia has a lot riding on its new touch-screen N8 smartphone. The world's biggest mobile-phone maker is trying to claw back ground lost to Apple's iPhone and devices based on Google's Android software. The Finnish company's shares are down 60 percent since Apple introduced the iPhone in 2007. Analysts at Morgan Stanley and Merrill Lynch say orders for the N8, out later this month, are ahead of expectations. The phone features an anodized aluminum case surrounding a 3.5-inch screen and streaming television services. Nokia will showcase the N8 and the rest of its Symbian smartphone lineup at its annual Nokia World event in London on Sept. 14 and 15.

Bank of New York Mellon
Planning an 'eBay' for illiquid securities

BNY Mellon, the biggest custodian of other firms' assets, is planning what it says is Europe's first online market to trade hard-to-value asset-backed securities, currently traded only at bank and brokerage desks. The so-called Structured Credit Connect market will allow banks, asset managers, hedge funds, and dealers to buy and sell anonymously. According to John Spedding, a managing director at BNY Mellon, the system will be like an "eBay of illiquid securities," where people know the number of bidders but not their identities. Structured Credit Connect will initially handle residential mortgage-backed securities and then expand to other assets.

PotashCorp of Saskatchewan
BHP may soon have rival bidders



PotashCorp CEO Bill Doyle says he doesn't believe BHP Billiton's $40 billion hostile takeover bid last month will be the only offer for the company. Potash, the world's biggest fertilizer producer, rejected the bid from the Australian mining giant, setting off speculation over other possible bidders, including China's state-owned Sinochem Group. According to a Reuters report, Sinochem approached Singapore-based Temasek Holdings about joining a group that may bid.

Volkswagen
The automaker beefs up its Audi line



Audi is adding the A7 Sportback—a $66,000 five-door model—to its lineup in a bid to attract big spenders with big familes. The Volkswagen-owned brand will introduce a dozen models this year, including the A7, an updated A6, and the A1, as it tries to push past BMW and Daimler's Mercedes-Benz in the luxury market. Audi forecasts record sales of more than 1.08 million cars and SUVs this year.

Roche
Buying rights to experimental drugs

$639 MILLION

Switzerland-based Roche may pay Belgian firm reMYND more than $639 million to help with the pre-clinical development of experimental medicines to treat Parkinson's and Alzheimer's disease. The companies will collaborate on establishing new therapies, according to Roche.

Barclays ▶ **Robert Diamond** appointed CEO.

HSBC ▶ Chairman **Stephen Green** leaving to become Britain's trade minister.

Int'l Coffee Org. ▶ Director **Néstor Osorio** named Colombia's U.N. ambassador.

POTASH: GEOFF HOWE/BLOOMBERG

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The Firefighters' First Responder on Pay

▶ **Union chief Schaitberger is resisting cuts to pay and benefits by city governments**

▶ **"We are willing to hold our friends high and to go after our enemies"**

The Obama Administration had a choice: It could send Cabinet secretaries to the June 2009 U.S. Conference of Mayors meeting in Providence or skip the gathering to please the International Association of Fire Fighters. The mayors lost. The Administration bowed out after the firefighters union's president, Harold Schaitberger, placed a call to Vice-President Joe Biden's office to say the union planned to picket the event in support of Local 799's six-year contract fight with the city. Schaitberger is "an eloquent, masterful advocate for the work that we do," says Paul Doughty, who heads the local. The White House declined to comment.



Schaitberger: Firefighters' prospects depend on the health of cities

A former lobbyist, Schaitberger, 64, has become one of the most powerful labor leaders in Washington, and he will need all of his string-pulling prowess in the months ahead. Facing severe budget pressure and underfunded public pension systems, local government officials are laying off firefighters, skirmishing with the 300,000-member firefighters union over pay and benefits, and seeking to roll back compensation they say taxpayers can no longer afford. Schaitberger says that he understands cities' hardships. "Our future is only going to be as good as our employers are healthy," he says. "I'm concerned about never wanting to kill the Golden Goose."

The union faces multiple challenges. More than one-fifth of U.S. cities surveyed by the National League of Cities, a lobbying group, have reopened contracts to claw back compensation from public employees, including firefighters. Miami city officials have approved across-the-board cuts of $76.9 million in salary and benefits, and the IAFF and police union have filed three lawsuits to block the move. Of 669 Miami firefighters, 115 received more than $150,000 in pay, overtime, and bonuses last year, according to city figures.

Los Angeles, Philadelphia, and Milwaukee have resorted to shutting fire stations temporarily or taking trucks out of service to cut costs. Philadelphia's closings, which began last month, are intended to save $3.8 million, mostly by cutting overtime. Firefighters' pay played a key role in the 2008 municipal bankruptcy of Vallejo, Calif., a city of 115,000 near San Francisco. Its fire and police contracts called for raises of more than 10 percent just as the housing crash hammered tax collections. The average firefighter's pay and benefits were set to hit $193,000 a year before the town went bust.

Such pay levels are creating a national backlash, says Lee Adler, a professor of labor law at Cornell University, who has worked on behalf of unions. "You create a bit of jealousy from that," he says. Schaitberger says the big paychecks reflect overtime pay and that cities would rather pay more to existing employees than hire new ones and assume higher benefit costs.

Firefighters can turn out thousands of volunteers for a candidate—one source of their political muscle

Schaitberger became a firefighter in 1966 and was elected IAFF president in 2000. He has learned how to deploy his union's political muscle when necessary. "The firefighters' endorsement is one of the most sought after—if not the most sought after—on the labor front," says Chris Lehane, a Democratic political consultant who worked for former Presidential candidates Al Gore and John Kerry. They provide candidates with thousands of volunteers, and they're regarded as heroes after September 11, Lehane says.

The IAFF's political action committee led all public-sector unions with $2.7 million in contributions to federal candidates during the 2008 election cycle, according to the Center

JOSHUA ROBERTS/BLOOMBERG

for Responsive Politics. "We live and die by politics," Schaitberger said. In 2007 and 2008 the union spent $323,000 against Republican Presidential candidate Rudolph Giuliani, according to Federal Election Commission records. Schaitberger says the former New York mayor left the city's fire department ill-prepared for September 11 and decided to reduce the recovery operations at Ground Zero too soon. "We are willing to hold our friends high and to go after our enemies," he says.

Schaitberger says his union hasn't ignored the fiscal crunch facing cities, pointing out that union members have accepted unpaid furloughs. At the same time, he is pushing for national legislation requiring U.S. states and municipalities to grant police, firefighters, and emergency medical personnel collective bargaining rights.

Ellis Hankins, executive director of the North Carolina League of Municipalities, says such a law would increase the financial pressure on cities. "When it's time to cut the budget, these long-term agreements just box in elected officials," Hankins says.

Schaitberger says Senate Majority Leader Harry Reid (D-Nev.) has assured him he'll try to pass the measure, which the Senate stripped from a supplemental war-funding bill that the House approved in July. Regan Lachapelle, a spokeswoman for Reid, declined to comment. Still, it's a safe bet that Schaitberger won't be letting the subject drop anytime soon. —*William Selway and Holly Rosenkrantz*

The bottom line *Firefighter union chief Schaitberger is fighting to protect pay and pensions from city budget cuts.*

Quoted

"I've given it my all. I've done my best."
—Chicago Mayor Richard M. Daley on why he decided not to seek a seventh term as mayor, clearing the way for a potential run by White House Chief of Staff Rahm Emanuel next year





Infrastructure Spending

More Cash Could Hit the Road

- Obama aims to spend $50 billion on transportation infrastructure
- The President's plan is a "show for the election," says a GOP lawmaker

For companies that do the unglamorous work of pouring cement, crushing stones, and hauling earth, President Barack Obama's $50 billion proposal outlined on Sept. 6 to rebuild U.S. roads, railways, and runways is welcome relief amid unrelenting economic gloom. If approved by Congress (an uncertain proposition in an election year) Obama's plan would pick up the slack when most of the highway stimulus funds under the $814 billion American Recovery and Reinvestment Act is expected to be spent next year, says Mike Betts, an analyst with London-based Jefferies.

The American Road & Transportation Builders Assn., a lobbying group, pushed hard for the fresh spending and noted that "infrastructure investment creates jobs, improves our global competitiveness, and fuels economic growth" in a statement after the President's announcement. It would also help boost the 2011 earnings results of companies ranging from **Caterpillar**, the world's biggest maker of construction and mining equipment, to **Vulcan Materials**, the No. 1 U.S. gravel supplier, according to Betts.

Obama wants Congress to approve spending to rebuild 150,000 miles of road, construct and maintain 4,000 miles of railroad, and refurbish 150 miles of runways. The plan would be an "up-front investment" that would work in tandem with normal transportation spending bills passed by Congress. The House in July approved $45.2 billion of highway construction funds for the fiscal year that begins Oct. 1, a 10 percent increase from the current period. The Senate needs to approve its version of the bill.

Senator Jim Inhofe, the ranking Republican on the Senate Environment & Public Works Committee, dismissed Obama's proposal as a

CLOCKWISE FROM TOP: TIM SLOAN/AFP/GETTY IMAGES; MAX BECHERER/POLARIS; RICH HEIN/THE CHICAGO SUN-TIMES/AP PHOTO



In Ohio, Obama announced that he won't extend Bush's tax cuts for the wealthy

"show for the election." While federal, state, and local highway spending will probably total almost $80 billion this year and has been propped up by stimulus funds, overall U.S. construction spending has been declining since October 2007, resulting in the loss of almost 2 million jobs, according to Betts. (Transportation spending accounts for less than 5 percent of total construction spending in the U.S.)

Without Obama's latest initiative, highway spending may fall as much as 5 percent next year, Betts says. If Congress goes along with Obama's plan, companies such as engineering and construction company **Fluor** and **Terex**, which makes mining trucks and hydraulic shovels, would probably benefit, according to Clint Currie, an industry analyst with Concept Capital's Washington Research Group. That said, he only gives Obama's ambitious infrastructure spending program, given expected Republican opposition, a 50 percent chance of becoming a reality. —*Thomas Black*

The bottom line *President Obama's $50 billion infrastructure plan would be a boost to construction and transportation companies if Congress signs off.*

Trade

Obama's Lighter Touch On Export Controls

▶ Defense companies applaud a proposed export-control revamp

▶ "These changes are the most important in at least 20 years"

President Obama has taken plenty of heat from business lobbyists for his health-care and financial regulatory overhauls this year. However, his plan to ease export-control rules that executives have called too broad and burdensome is winning raves from defense and aerospace companies—and even the usually critical Heritage Foundation, a famously conservative Washington think tank.

Following a yearlong review by Defense Secretary Robert Gates, the White House on Aug. 31 unveiled blueprints for a new control system that governs the export of technologies like encryption software and airplane parts for both commercial and military use. The government has long maintained a single U.S. Munitions List of restricted items for export abroad. Under Obama's plan, the list would be modified into a three-tiered system that would include items with critical military value available only in the U.S. and which would continue to require export licenses. Another group would involve products that can be bought in both America and abroad that could be sold overseas after government approval. A final category would involve items widely available worldwide that may not require export licenses.

Obama also hopes to launch the Export Enforcement Coordination Center, an agency that, if approved by Congress, would aim to improve enforcement and coordination among the Commerce Dept. and State Dept., the Pentagon, and other agencies that currently handle the regulation of export controls.

"This initiative is good for national security, good for government reform, and good for American competitiveness," says Michael Froman, Deputy National Security Adviser for International Economic Affairs. The White House says the plan would further Obama's goal of doubling U.S. exports in five years, to about $3.1 trillion. Aircraft controls maker **Honeywell International**, software developer **Microsoft,** defense contractor **Northrop Grumman**, and airplane builder **Boeing** are among the companies that may benefit. "This action will improve the functioning of the government and protect sensitive and critical U.S. technologies while enhancing industry's ability to compete in global markets," Northrop Chief Executive Officer Wes Bush said in an e-mailed statement.

Executives want the government to bring more consistency to its export-control regime. For instance, the brake pads on a M1A1 tank under current rules are subject to restrictions even though they are almost identical to



A General Dynamics maintenance worker readies a new M1A1 tank in Iraq

Dogster thrives in Facebook's shadow
page 35 ►



pads for fire trucks that can be exported without a license. An Administration analysis of the new approach shows the changes may reduce the number of items that require export licenses. Of the 12,000 in the tank and truck category on the U.S. Munitions List and the Commerce Control List, 74 percent will be on the less restrictive list or not be subject to limits under the new export control regulations.

Critics applaud the Administration's proposal. "It does stimulate exports, and it does have security benefits," says the Heritage Foundation's James Carafano.
—Hans Nichols and Gopal Ratnam

The bottom line *Obama's proposed revamp of export controls of dual-use technologies has broad support among defense and technology companies.*

Midterm Elections

Why Ohio is Shaky Terrain for Democrats

- **Voters are angry over the state's fiscal mess and the jobless rate**
- **"It's a mixture of old and new, rural and urban, industry and agriculture"**

A construction crew rebuilding sidewalks along the main road into Wilmington, Ohio, one August afternoon choked traffic and kicked up dust in the late-summer heat. Projects like this and other ventures funded by last year's $814 billion economic stimulus package generated about 21,000 jobs in Ohio in the second quarter of 2010 alone. Dan Stewart isn't impressed. "From the time they put up the first barricades, downtown has been dead," says Stewart, 60, who runs a bookstore a block from the Clinton County courthouse. "The orange barricades said, 'Wilmington is closed.' "

The electorate is so grouchy and disillusioned in this southwest Ohio town of 12,000 that even a federal project delivering jobs is cause for griping. It's the kind of environment Democrats seeking to retain control of the U.S. Congress face pretty much across the state. The issues roiling the nation–unemployment, the housing slump, slow growth, deficits–dominate here. The jobless rate in Ohio was 10.3 percent in July, compared with a national average of 9.6 percent. (Over the last decade, Ohio has lost about 400,000 factory jobs, 40 percent of the state's manufacturing workforce.)

The $1 billion surplus the state government ran in June 2005 turned into a $1.13 billion deficit last year, according to data compiled by Bloomberg. More than a quarter of subprime mortgage loans in Ohio were delinquent for 90 days or more in the second quarter. No surprise, then, that Obama and his advisers chose to visit Cleveland on Sept. 8 to urge Congress to permanently extend a research-and-development tax credit for businesses.

Ohio has so many close state and federal races that any pattern here is likely to reflect broader, national trends in the contests for control of Capitol Hill. "It's a mixture of old and new, rural and urban, industry and agriculture," says Stuart Rothenberg, editor and publisher of the nonpartisan *The Rothenberg Political Report*, which handicaps congressional and gubernatorial elections.

As many as five congressional seats held by Democrats are up for grabs. Among them, U.S. Representatives Steve Driehaus and Mary Jo Kilroy, both first-term Democrats, must coax the students and black voters who propelled them into office back to the voting booth without Obama on the ticket. Democratic Governor Ted Strickland faces a tough reelection. Almost 400,000 jobs have been erased since he took office in 2007.

Republicans need to retain the seat held by retiring U.S. Senator George Voinovich if they want to boost their chances of winning control of that chamber from the Democrats. Their candidate, Rob Portman, the top international trade official under former President George W. Bush, is vying to succeed Voinovich in a state that continues to lose jobs to overseas rivals. "If Rob Portman wins Ohio as the trade representative for George Bush, it is, in fact, one of the seven signs that the world is coming to an end," says Chris Redfern, chairman of the Ohio Democratic Party.

Obama has visited Ohio 10 times since he became President, trying to keep supporters on board. In May he was in Youngstown talking about a federal transportation grant. In June he was back in Columbus to talk about the 10,000th road-building project financed by the bill. And last month he sat around the kitchen table of a Columbus family listening to people express their concerns about the economy. The payoff: Obama's approval rating has fallen 17 points, to 46 percent, over the last year, according to the most recent Ohio Poll conducted by the University of Cincinnati. **B**
—Patrick O'Connor and Lisa Lerer

The bottom line *Democratic candidates face a tough time in Ohio, home to a severe housing slump, big deficits, and high unemployment.*



Obama's ratings have fallen 17 points in Ohio despite road-building projects and visits

CLOCKWISE FROM TOP: AGE FOTOSTOCK; NIGEL PARRY/CPI SYNDICATION; BRED TRENT; JAY LAPRETE/BLOOMBERG

Charlie Rose talks to

Tony Blair



The former British Prime Minister, whose memoir, *A Journey*, has drawn protests in Dublin and London, defends the invasion of Iraq

What have you learned about the way the world works since you left office that you wish you had known when you were Prime Minister?
The first is that power is shifting east—and fast. This is not a cliché. It is a reality and it's transformative. And it has huge implications for the West. The second is that I've got a clearer understanding of [Islamic] extremism now and how what is effectively a global movement with an ideology operates.

Exactly what have you learned about radical, violent fundamentalists?
That the problem is not simply the extremism. One of the mistakes is in thinking that if you deal with the extremists, you deal with the problem. My view is that the problem is a particular narrative about Islam that is shared by a far broader spectrum than we think. That narrative is basically that Islam is under oppression from the West and that by the leadership of Muslim countries being in alliance with the West, they are somehow complicit in the betrayal of their religion. It's a narrative that has to be challenged inside and outside.

How far away is your thinking from [Samuel] Huntington's *The Clash of Civilizations*?
I don't think there is a clash of civilizations, but I think the issue he raised is essentially correct. I don't think the 21st century will be a century of political ideology. I think it will be a century of religious or cultural ideology with the potential to divide and cause conflict.

Doesn't your book come down agreeing with Dick Cheney?
I agree with his view that the world had to be remade as a result of September 11, although I would do it [with] a far greater combination of hard and soft power.

What's interesting to me is that even though Saddam Hussein had nothing to do with 9/11, for you the invasion of Iraq was inevitable after 9/11.
It is true that while Saddam wasn't responsible for [the attacks] ... you can't understand anything about the decision I took after 9/11 without understanding that this was not just [about] the 3,000 people who died that day but the fact that if it could have been 30,000, they would have killed 30,000 or 300,000. What that means is you're dealing with a completely different type of terrorist threat, and that immediately raised the issues to do with nuclear, chemical, and biological proliferation. And the place to start was Iraq ... because Saddam was breaching the U.N. resolutions and used chemical weapons in the Iran war, used them against his own people; thousands died as a result of it.

What would have kept you from supporting an invasion of Iraq?
That's really simple—a genuine change of heart. ... You could have drawn the conclusion that because [Saddam] didn't have an active program, he had no intent, when actually we know now that he kept the scientists together, kept the know-how, kept the laboratories going, and his desire was to restart [production of weapons of mass destruction] once he got rid of the sanctions. And since oil prices in the next few years rose significantly, he would have had the money, the intent, and the know-how. I've never accepted this idea that had we simply left him there, he would have retired into comfortable old age and obscurity.

Are you convinced that history will be on your side?
You can never be convinced about these things, but yes, in the end. As I always say to people, there are two issues with Iraq. One is the whole question of WMD: [We] said there was an active program, and there wasn't. Therefore no *casus belli*, as it were. The second thing, though, that looms even bigger for people is the difficulties [after] we then went into in Iraq. Saddam was removed in two months. By the middle of 2003 we were there with full U.N. authority, U.S. and U.K. troops. Had it been like Kosovo, for example, probably there wouldn't be an issue today.

If the war was successful and quick?
And had then stopped.

But doesn't that say something about the leadership of you, President Bush, Donald Rumsfeld, Cheney, and others? You were not wise enough to appreciate the possibilities.
Well, the interesting question is if you had foreseen that al-Qaeda would come in, that Iran would operate in the way it did, would you then have backed off?

And?
And the answer is no. B



Watch Charlie Rose on Bloomberg TV weeknights at 8 p.m. and 10 p.m.

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Technology



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With Friends Like This, Who Needs Facebook?

▶ **Social networks such as Dogster, PotSpace, and CafeMom draw users—and advertisers**

▶ **"We feel like we're a moon orbiting Facebook," says GoFISHn's founder**

Saltwater fly-fishing pro Tony Biski recently came home with a story so good he couldn't wait to share it. "It was a 12-foot great white shark viciously thrashing his tail and spraying us as he ran off with the fish," wrote Biski, a resident of Chatham, Mass., in a post that grabbed the attention of dozens of other anglers on the Web. One commenter wanted to know if Biski had time to snap a photo. Another quipped: "Just in time for the 35th anniversary of *Jaws*."

Biski didn't bother posting his fish tale on **Facebook**, the 500 million-user site that's the world's biggest social network. Instead, he shared his story on **GoFISHn**, a community of a few thousand anglers. The site features maps that pinpoint where fish are biting, a photo gallery where members can show off their catches, and other quirks that distinguish it from a mass audience site. "We feel like we're a moon orbiting Facebook," says Ned Desmond, a former digital publishing executive at Time Inc. who launched GoFISHn in December 2009. Desmond plans to create GoHUNTn and up to eight other interest-specific networks in coming years.

Interest-specific networks are helping marketers in their endless quest for perfectly honed targets

Facebook's six-year rise from exclusive online hub for Ivy Leaguers to global digital directory has inspired a countertrend: niche social sites. Name an affinity, hobby, occupation, or demographic–mustache-wearing men, hamster lovers, moms, research scientists, boomers–and there's likely to be a dedicated social network for it. While most niche networks are run by fledgling tech startups and are, almost by definition, small, they add up to a sizable portion of the social Web; in July at least 280 million people logged on to social sites other than Facebook and **Twitter**, according to audience tracker comScore. Andrew Lipsman, comScore director of industry analysis, estimates

Technology



A touch of class for the Pink Sheets page 43 ►

the real number could be as high as 700 million, since many people use more than one social site.

Apple dove into interest-specific social media this month with the launch of Ping, a service for connecting music fans and artists. Unlike Ping, which has a ready-made feeder community of tens of millions of iTunes customers (and which surpassed 1 million users in just 48 hours), most niche network operators have to do more with less, building features into their sites to secure loyalty and interaction from users. There's a payoff: They can charge higher ad rates. "The only way for a network to survive in a small community is to have a very high revenue per user," says Jeff Clavier, a Silicon Valley angel investor who has backed canine site **Dogster** and video-gamer community **Curse**.

The exemplar of niche network success is **myYearbook,** founded in 2005 by siblings David and Catherine Cook. The site pulls in 25 million users, mostly teenagers, via dozens of games such as Blind Date, in which players attempt to match up compatible peers. "Our assumption is essentially everyone will have a Facebook account and use it to connect to friends and family," says Geoff Cook, who joined his brother and sister soon after they founded the New Hope (Pa.) company, becoming chief executive officer. "Our users are here to meet new people."

Viacom's MTV, Six Flags, and other advertisers provide the bulk of myYearbook's revenue, which its CEO says has grown to about $2 million per month, up from about $1.2 million a year ago. One-third of sales now come from Lunch Money, a virtual currency purchased with real cash. Taking a page from Facebook's playbook, the company plans to partner with up to a dozen game makers to expand the selection of activities on the site. Cook expects myYearbook to post its first annual profit in 2010.

While myYearbook focuses on teens, **Eons** attracts empty nesters with newfound time on their hands. Created by **Monster.com** founder Jeffrey C. Taylor in 2005, Eons caters to the 50-plus crowd with discussion groups about retirement, spirituality, and the single life as a mature adult. "Facebook is really a place where you go, and it's all about who you know–it's me-centric," says Linda G. Natansohn, chief operating officer at the Charlestown (Mass.) startup. "Eons is we-centric." For example, some of the site's 825,000 members meet up for boat cruises to Cabo San Lucas, Mexico, and excursions to Cape Cod. The outings are called SKITs, which stands for "spending your kids' inheritance tours." "Eons was created and continues

Like Facebook, Only for ...

A dozen social networks, each with a different society in mind

CafeMom

The network for moms hosts over 20,000 discussion groups—from "20 Something Moms" to "yes! I spank!" Cute-kid pictures are the favorite conversation piece. Kmart, General Mills, and Johnson & Johnson are sponsors.



deviantART

Social showcase for painters, photographers, cartoonists, and other visual artists. Users strive to get their art featured in others' galleries and receive critiques. An optional $4.95 monthly fee removes ads and unlocks tools for artists to promote their work.*



Dogster

Canine-lovers set up profiles for their four-legged friends on Dogster, which counts 700,000 (human) members. Add dogs to your "corral," read doggy diaries, or just give a dog a bone. Lately, a debate is raging: Should dogs be allowed in bed with their masters?



Eons

Boomers congregate at Eons, a site launched by the founder of job board Monster.com. Popular discussion topics are retirement and spirituality; many of the 825,000 members meet for real-world excursions called SKITs: "spending your kids' inheritance tours."



GoFISHn

"Fishermen love to look at other people's catches"—that's how Ned Desmond sums up the idea behind GoFISHn, a site he launched last year. The network's 4,000 anglers love sharing maps that pinpoint where fish are biting.



Lost Zombies

Facebook it's not: 15,000 amateur film makers collaborate on a feature-length, mock documentary about a zombie-induced apocalypse. If it goes Hollywood, contributors get a piece of the box office take.



myTransponder

An aviation site where pilots find work, students locate flight instructors, and trade-specific advertisers—such as aviation software maker ForeFlight—home in on a hard-to-reach audience of over 2,000.



myYearbook

Online after-school hangout for 25 million teens and young adults. Earn or pay cash for "Lunch Money"—currency used to wager on games such as the photo-driven popularity contest Battles. MTV and Six Flags are among the advertisers.



PatientsLikeMe

Some 80,000 patients suffering from depression, Parkinson's, and other conditions use the site to log the progress of their treatments. Users sometimes realize they've been misdiagnosed after reading others' accounts.



PotSpace

Recipes for pot brownies and space cakes are traded daily on PotSpace, which looks like MySpace—only greener. Over 180,000 people share tips for passing drug tests, growing plants, and obtaining medicinal marijuana. Ads tout "legal herbs" available by mail.



ResearchGATE

More than 500,000 scientists use ResearchGATE to coordinate research in areas such as artificial intelligence and cancer biology. Biotech companies pay to post job listings, and other institutions pay to form private communities on the site.



Yoursphere

Kids 12 and under aren't allowed on Facebook. A safer place for them is Yoursphere, where new users need parental consent to join. Games, virtual hovercraft rides, critter-raising, and creative writing contests abound.*



* DATA ON NUMBER OF USERS NOT AVAILABLE

to exist for the very targeted audience that we're looking for," says Tom Noland, a spokesman for Medicare coverage provider **Humana,** an advertiser on the site.

According to researcher eMarketer, the cost of a banner ad averages 62¢ per thousand page views across the universe of social networking sites. Advertisers on 700,000-user site Dogster sometimes pay upwards of $8, says Ted Rheingold, founder and CEO of the San Francisco company. A recent game for puppy lovers had users digitally hunting down and killing fleas—a promotion for **Frontline**'s flea collars. "Their brand is present as part of the whole dog owner experience, not just as a small ad to the right of the page," says Rheingold, alluding to Facebook's ad format.

None of these sites is a threat to Facebook. Rather, most depend on the larger site to get users learning the ABCs of networking online; the niche networks are the advanced course. "Two years ago everybody was talking about Facebook sucking all the oxygen out of the room," says Rick Lewis, principal at **U.S. Venture Partners** and a member of myYearbook's board. "There is potential that didn't exist two years ago."

Niche sites can help consumers get away from the noise of the mainstream while helping marketers in the endless quest for perfectly honed targets. "Need to find pilots who have experience in the Cessna 337 Skymaster that happen to live in California?" asks Rod Rakic, founder of aviation social network **myTransponder**. "We can do that."
—*Douglas MacMillan*

***The bottom line** Facebook's ascendancy has opened the way for an assortment of more focused social networks. That's good news for marketers.*

Quoted

"Craigslist is not a pimp, but a public perch from which law enforcement can watch without being seen."
—Microsoft researcher Danah Boyd on craigslist's decision, under pressure from government officials, to shutter its "adult services" section



Hardware

IBM's Big Push to Steal Sales From Its Rivals



▶ **Big Blue tries auto industry tactics to boost server sales**

▶ **"They've eliminated the costs associated with upgrading"**

Interest-free payments and no money down until 2011. It sounds like a car salesman's pitch. Actually, it's **IBM**'s latest effort to poach corporate customers from rivals **Oracle** and **Hewlett-Packard**.

Starting this month, Oracle and HP customers that switch to IBM's latest package of servers, software, and storage, priced at upwards of $75,000, will get trade-in credit and can defer all payments until next year, interest-free. Big Blue also will help finance the cost of taking out a client's old equipment and transferring the data over to its Power7 system.

IBM, which managed to steal 500 customers away from competitors last year, hit that mark in just six months in 2010, says Jeff Howard, the marketing director for Power7. Now it's hoping the sweetened financing will help keep the momentum going. "Some customers have budget money in 2010, some don't," says Dan Ransdell, general manager of IBM global financing for North America. "It's one thing we can take off the table. It should not be the inhibitor." The sales incentives won't crimp IBM's bottom line because the company sells the systems to its global finance division, which in turn leases them to customers.

Big Blue is trying to capitalize on uncertainty surrounding Oracle's integration of its $7.4 billion acquisition of server maker Sun Microsystems, for which IBM had also bid. Larry Ellison, Oracle's chief executive officer, has declared war on IBM in advertisements and in presentations to investors, saying he can challenge the company in the server market by packaging Oracle's software with Sun's hardware.

So far, Ellison is not getting many takers. Oracle's server sales fell 11 percent last quarter, pushing down its share to 8.4 percent for the period, from 10.8 percent the year before, according to research firm Gartner. IBM's Howard points out that 61 percent of the customers IBM won over from rivals in the first half of the year were from Oracle. Some clients have been wary about committing to Sun's servers because Ellison has been vague about his plans for the product line, says Cal Braunstein, CEO of Robert Frances Group, a technology analyst firm in Westport, Conn. Oracle spokeswoman Deborah Hellinger declined to comment.

IBM, meanwhile, is playing catch-up with HP, whose share of server sales rose to 32 percent last quarter. IBM's slipped to 27.7 percent, a nearly five-percentage-point drop from the year before. That marked the second straight quarter IBM came in at No. 2, after having dominated the market for two years. The reason, according to Gartner, is that demand for lower-end servers, where HP is stronger, is rebounding faster than the market for IBM's higher-end servers. Big Blue also took a hit as customers postponed upgrades, waiting until the company rolled out new mainframes and server systems at midyear, explains IBM spokesman Joe Barkan.

IBM can expect stiffer competition from Oracle now that Ellison has appointed former HP CEO Mark Hurd as co-president. Hurd—who left HP in August after an investigation of a sexual harassment claim found inaccurate expense reports filed by him or in his name—has a 30-year-plus track record in the hardware industry.

Nonetheless, Braunstein expects IBM to continue to make inroads, thanks to the attractive terms it's offering. "They've eliminated the costs associated with upgrading and made themselves competitive," he says. "It will entice a number of people."
—*Katie Hoffmann*

***The bottom line** IBM has been losing ground to Hewlett-Packard in servers. A sweetened pitch could lure customers away from rivals.*

CLOCKWISE FROM TOP LEFT: JIN LEE/BLOOMBERG; GILAD LOTAN; ALAMY (2); CORBIS (6)

Consumer Electronics

A Mouse Maker Stakes Its Future on TV Sets

▶ Logitech has teamed up with Google and Intel on Web TV

▶ "People want to put you in a box... 'You're just a mouse maker'"

Gerald Quindlen, chief executive officer of **Logitech International**, looked around in early 2009 and saw that the Swiss maker of keyboards and mice faced a grim future. Sales of desktop PCs were falling as smartphones, tablets, and other mobile devices captured consumers' fancy. Most of those products don't require the computer peripherals that make up 89 percent of Logitech's sales.

After giving thought to turning the company into a purveyor of digital accessories such as iPad cases, the American-born CEO decided to team up with **Intel** and **Google** on a $300 book-size black box called Revue. The gadget, set to debut in October, will be the first product to use Google's software for flowing content off the Web onto a regular TV set. With Revue, Logitech aims to succeed where others have stumbled in delivering a device that can make it easy for even Luddites to master the complex tangle of home electronics. "People want to put you in a box and say, 'You're just a mouse maker,'" says Quindlen. "We want to prove we can be much more than that."

Based on the Android operating system, Google's Chrome Web browser, and Intel chips, Revue will allow consumers to perform more than one function on a single screen. Users, for instance, will be able to watch a football game while Googling stats on a particular player in a separate window. They'll also be able to download and run some Android apps on their big-screen sets.

Google and Intel chose Logitech because it makes a universal remote control, called Harmony, that contains codes for hundreds of home electronics, including TiVo, Blu-ray disc players, and stereo receivers. From the comfort of their couches, people also will be able to launch video chats using software called Logitech Vid and an add-on high-definition webcam.

After more than a decade, **Microsoft** and **Sony** are still struggling to make it simple for consumers to set up and share movies, music, and pictures across devices, particularly televisions. **Sony** and **Microsoft** have carved out a niche with their video-game consoles, but the majority of people don't think of these machines as entertainment hubs. The first iteration of Apple TV, a box that downloads movies and TV shows, didn't get much traction. And while unveiling a version of the gizmo on Sept. 1, **Apple** CEO Steve Jobs admitted that no one has quite figured out a new way of delivering a satisfying consumer experience in the living room. One big issue that has bedeviled all these players is getting Hollywood studios and other production houses to share their content, so that consumers will be willing to spend for a separate set-top box.

According to Bloomberg data, 14 of 22 analysts covering Logitech recommend investors hold or sell their shares. While Logitech "certainly will benefit from a window of exclusivity as the first companion box offered, recent reports suggest Google is encountering resistance from the studios with respect to making their content available," says Tony Berkman, head of the consumer technology practice for New York-based Majestic Research. A Google spokeswoman says the company is making progress on this front.



Logitech's Revue set-top box is set to hit the market next month

Even if Revue isn't a big success, Quindlen thinks Logitech could capture millions in revenue from licensing its Harmony remote and Vid software to others. Sales of add-on cameras and keyboards to surf the Web also could help Logitech hit its goal of $5 billion in sales in a few years, up from $2.2 billion in its fiscal 2009.

Logitech is also hoping to capitalize on the use of videoconferencing in the office through its purchase last year of Texas-based LifeSize. Quindlen is not saying it's going to be easy. "We have a lot of competitors and there will be a lot more," he says. "We have a lot more things to work on over the next few years to get to that $5 billion." —*Cliff Edwards*

The bottom line *Logitech is trying to wean itself from PCs. Yet success in the Web TV arena has eluded even deeper-pocketed tech companies.*

1,000

DOLLARS

Maximum penalty under California's "E-personation" bill, which would punish anyone who poses as another person online with malicious intent

Outsourcing

North Korea's Knack for Games Pays Off

▶ Software exports may help buttress a sagging economy

▶ "Training them to do games can't bring any harm"

North Korean leader Kim Jong Il has found an unlikely ally to help raise cash for his impoverished regime: The Dude, the pot-smoking underachiever played by Jeff Bridges in the 1998 movie *The Big Lebowski.*

Programmers from North Korea's General Federation of Science and Technology developed a mobile-phone bowling game based on the film as well as another inspired by *Men in Black*, say executives at **Nosotek Joint Venture**, a Pyongyang-based tech outsourcing outfit that teams up software developers from the federation with clients in Europe and elsewhere. Published a



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Technology

couple of years ago by a unit of **News Corp.**, the games are still available for download on the Web.

"These activities help to fund the regime," says Andrei Lankov, a North Korea expert at Seoul's Kookmin University. Contracting with North Korean companies is legal under U.N. sanctions unless they are linked to the arms trade. While there is no data on how much revenue North Korea gets from software exports, some software development companies operating in the Hermit Kingdom have "hundreds or even thousands of staff each," according to Volker Eloesser, a German native who is among Nosotek's founders. Technological education at North Korean universities has "become significantly better," said Eloesser in an e-mail.



Leader Kim is backing North Korea's foray into software programming

James Lewis, a senior fellow at the Center for Strategic & International Studies, a Washington policy group, believes Kim's regime may be putting this knowhow to nefarious uses. South Korea's intelligence agency has said it traced 2009 cyber attacks on dozens of websites in South Korea and the U.S. back to North Korea's postal ministry. Says Lewis: "The coding skills people would acquire in outsourcing activities could easily strengthen cyberwar and cyberespionage capabilities." Eloesser disputes that assessment. "Who could train them, as neither me nor the Chinese engineers who are cooperating with the Koreans have those skills ourselves?" he said. "Training them to do games can't bring any harm." **B**

—Matthew Campbell and Bomi Lim

The bottom line *North Korea's university grads are writing code. Whether the intent is to amuse or cause trouble is in question.*

Innovator

Phil Denby



A British scientist thinks he can make solar cells that could power entire buildings out of particles too small to be seen without an electron microscope

Phil Denby almost talked himself out of his big idea for very small solar cells—so small they could be turned into a transparent spray that could be applied to windows the way tint is applied to car windshields and sunglasses. The 32-year-old Yorkshire-born Brit was doing postdoctoral research in Bergen, Norway, when he revisited a notion he'd been mulling for years—that metal nanoparticles, bits of matter thousands of times smaller than the width of a human hair, could be used to create a thin solar film. "If it was a good idea, someone would have done it before me," Denby says of his thinking at the time. A colleague encouraged Denby to pursue it anyway, and now his five-person, Bergen-based development shop, EnSol, has a patent pending for the spray.

At 250 nanometers, EnSol's solar film is 800 times thinner than the silicon wafers that are used to make traditional solar cells, and dozens of times thinner than other solar films on the market. Using standard industrial coating techniques, EnSol's product could be applied to almost any surface, from windows to roof tiles—potentially turning whole buildings into solar panels. The cells could be manipulated to appear in any color. Denby won't say which metals EnSol uses, only that he says they are cheap and nontoxic.

With an initial grant of about $75,000 from the Research Council of Norway, Denby recruited Chris Binns, a nanotech specialist at the University of Leicester in Britain, to help produce sample cells. So far the two have been able to make only a few square centimeters of film at a time. "We've got this stuff, we shine light on it, and it produces a current," says Binns. The next step is to test the film's efficiency, the rate at which it captures sunlight. Commercial silicon cells average around 15 percent efficiency; EnSol is aiming for 20 percent and hopes to have a product ready for the market by 2016.

Robert W. Birkmire, director of the Institute of Energy Conversion at the University of Delaware, says that may be a challenge. "To actually make something that's marketable is a long road to hell," he says. Denby, now in talks with venture-capital firms, is making no guarantees. "It's very early in the day to say anything definite," he says. Denby wants to be sure investors are willing to stick with his idea. "It could be huge," he says. "I'm sort of a naïve scientist and would like to see a better world for everybody." **B**

—Ira Boudway

Education ▸ **PhD in nanoscience from University of Manchester in Britain**

Headquarters ▸ **EnSol, a five-person research outfit in Bergen, Norway**

Idea ▸ **Transparent solar-cell film applied through a a spray**

FROM LEFT: KOREAN CENTRAL NEWS AGENCY VIA KOREA NEWS SERVICE/ AP PHOTO; PHOTOGRAPH BY JUDE EDGINTON FOR BLOOMBERG BUSINESSWEEK

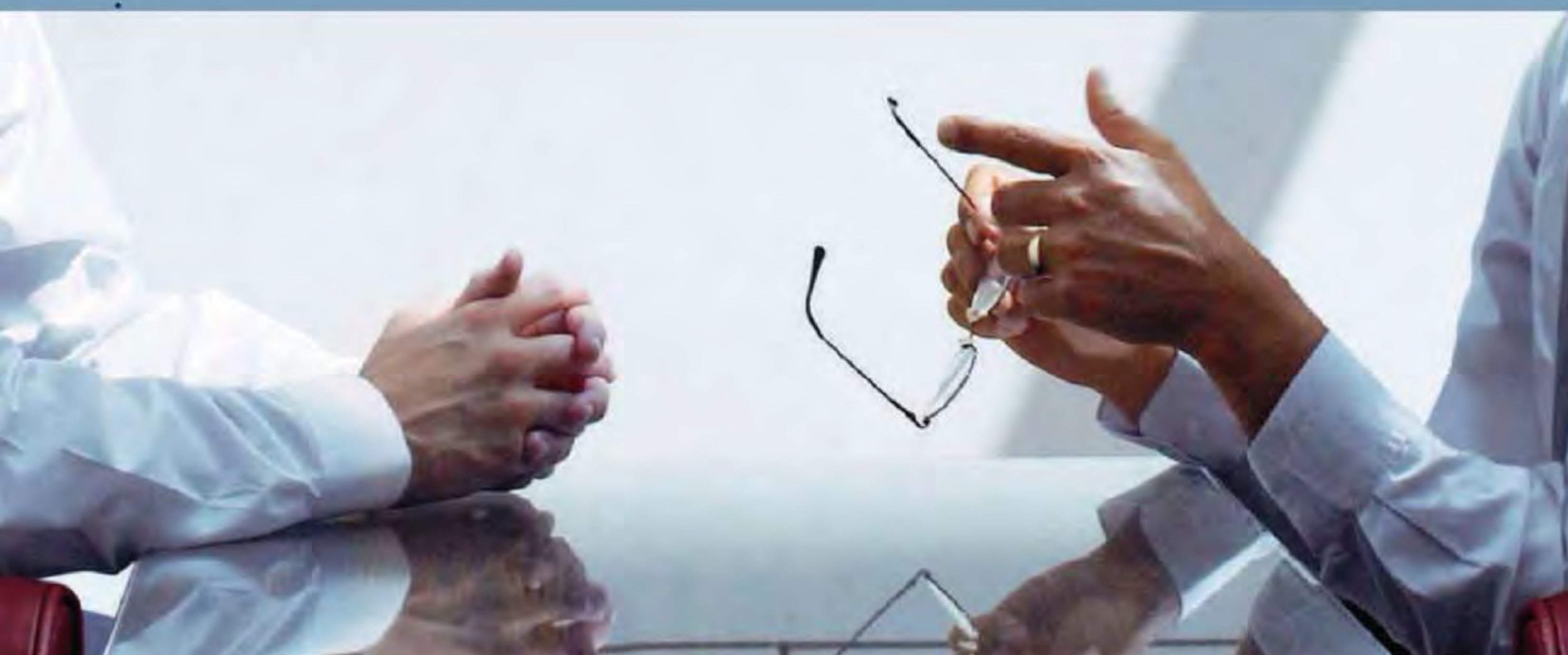
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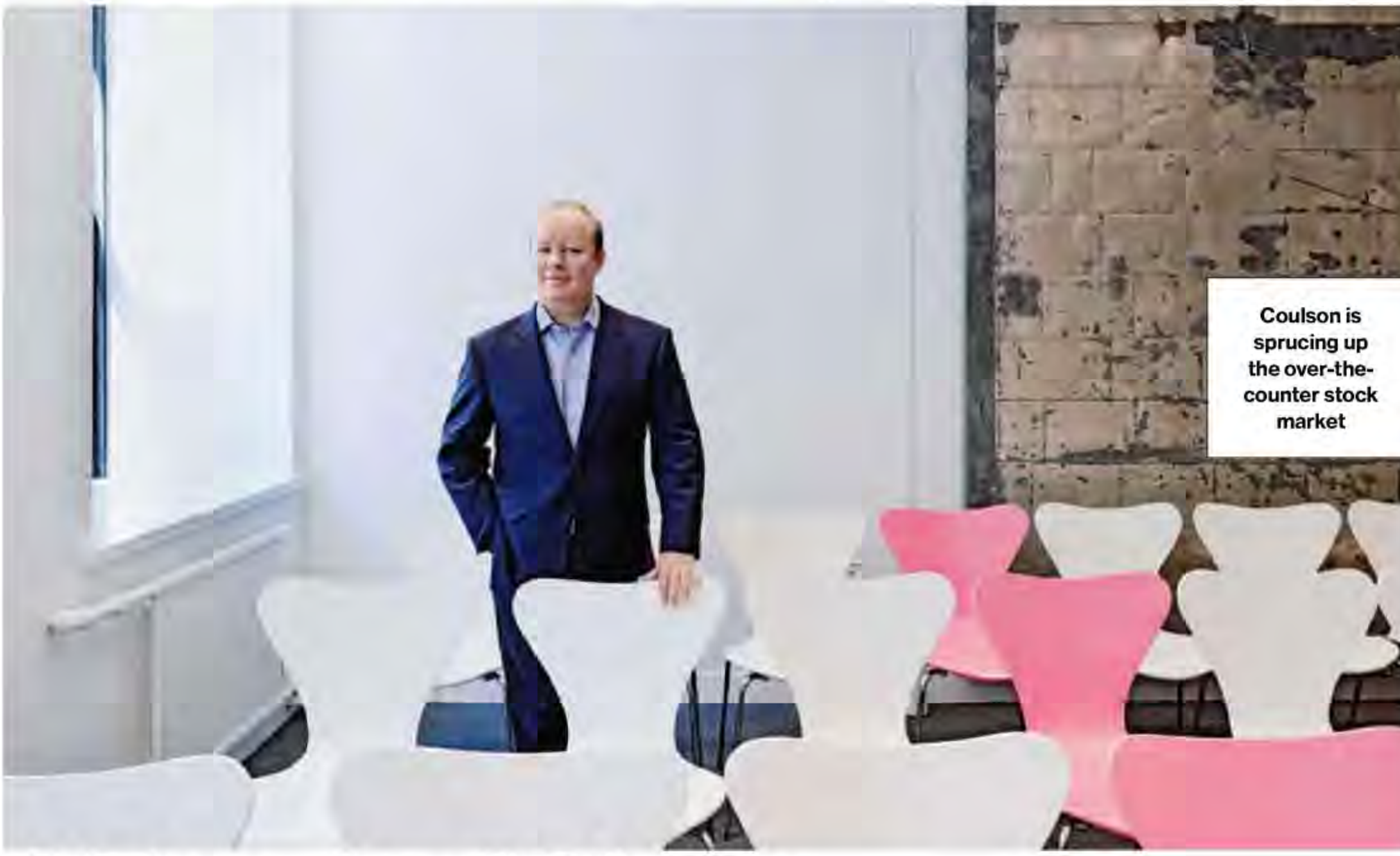
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Coulson is sprucing up the over-the-counter stock market

A Touch of Class For the Pink Sheets

▸ **Large, reputable foreign companies are taking up residence on a dodgy stretch of Wall Street**

▸ **"If you believe every single part of U.S. securities law is necessary, there is going to be a danger"**

The over-the-counter stock market—known as the Pink Sheets—has long been Wall Street's scruffiest block, home to investment scams, stock in bankrupt companies, and shares that trade for pennies. Now some fancier names are moving in. **Deutsche Telekom**, French bank **BNP Paribas**, and pay-TV operator **British Sky Broadcasting Group** are among the most recent additions, bringing the Pink Sheets' roster of well-established foreign companies to 108.

By listing on the Pink Sheets rather than the New York Stock Exchange, foreign companies get access to American investors at less cost and without having to follow most U.S. securities rules. While these companies may improve the reputation of the Pink Sheets, plenty of others merit caution. "The Pink Sheets traditionally have been more of a free-for-all," says Eric Pan, a professor at Benjamin N. Cardozo School of Law in New York. "You're playing with the big boys, and you need to be savvy."

Even the chief executive of **Pink OTC Markets**, operator of the Pink Sheets, R. Cromwell Coulson, says most of the companies that have been listed on his Pink Sheets aren't "investable." Named for the pink paper once used to print stock prices, they include many stocks too financially distressed or secretive to meet major-exchange standards. Pink OTC Markets puts skull-and-crossbones warning symbols next to listings that are the subject of spam e-mail promotions. More than a third of the companies still provide investors with no information on their operations, according to Pink OTC Markets. Those get a stop sign.

The Pink Sheets have seen numerous ripoffs. In January, Phillip W. Offill Jr., a former Securities and Exchange Commission lawyer, was the last of 11 individuals convicted in a scam that used false press releases and spam e-mails to promote a virtually worthless over-the-counter stock. In September 2009, a former broker, Eric T. Seiden, pleaded guilty to placing fraudulent orders for $1.8 million in penny stocks.

Over-the-counter stocks can take investors on rollercoaster rides even absent improprieties. **KeyOn Communications Holdings**' stock rose 1,722 percent in 2009, based partly

PHOTOGRAPH BY DEAN KAUFMAN FOR BLOOMBERG BUSINESSWEEK

on an analyst's report trumpeting the rural Internet provider's prospects for federal stimulus dollars, and on what KeyOn CEO Jonathan Snyder characterized as improvements in the business. The U.S. Agriculture Dept. rejected the stimulus applications in March, and KeyOn's stock has fallen 69 percent this year. "The primary reason for these price swings is the lack of institutional research and liquidity in the over-the-counter market," says Snyder.

Coulson was 30 years old when he and fellow investors bought Pink OTC Markets in 1997. The Pink Sheets were "dark, inefficient, and very dangerous," he says. They improved trading technology, making price information electronic. In 2007 they sought to bolster the market's reputation by creating a separate trading platform for larger, well-established companies, OTCQX. To qualify, companies need annual revenues of $2 million and a market value of $5 million. Out of 9,622 securities listed on the Pink Sheets, 129 make the grade.

The decor of the company's headquarters, in New York's SoHo neighborhood, reflects the push for respectability. While pink once covered the walls, the color is now visible on some furniture and in thin stripes on gray carpet. If shareholders approve, Coulson says, he plans to drop "pink" from the company name and make it OTC Markets Group.

Roche, the Swiss pharmaceutical company, wanted to increase its visibility to U.S. investors but worried about associating with over-the-counter offerings, says Thomas Kudsk Larsen, head of investor relations in North America. The OTCQX designation addressed those concerns, and the company started trading there in 2007. "By segregating out high-quality companies, we kind of get away from the reputation of the Pink Sheets," Larsen says.

It costs $15,000 a year to list on the OTCQX, while an initial listing on the NYSE costs $125,000 to $250,000, according to their websites. And OTCQX companies escape costly U.S. rules and reporting requirements, including those in the 2002 Sarbanes-Oxley law enacted in the wake of the Enron scandal. Judy Shaw, a NYSE spokeswoman, declined to comment.

Deutsche Telekom made the switch from the NYSE in June. "We did that primarily as a way to reduce costs and reduce complexity of financial reporting," says Nils Paellmann, vice-president for investor relations at the Bonn-based telecommunications company, Europe's biggest by revenue. Deutsche Telekom previously had to staff a separate department to comply with SEC rules; it expects to save a "double-digit million-euro figure per year," Paellmann says.

Over-the-counter foreign stocks can use international, rather than U.S., accounting rules in calculating results reported to investors. They also can avoid U.S. rules that require senior executives to take personal responsibility for the accuracy of financial reports each quarter. SEC spokesman John Heine declined to comment on the trend of companies switching to the Pink Sheets.

Disclosure is a concern anytime an investor buys stocks in a foreign company not traded on a major U.S. exchange, says Cardozo's Pan. "If you believe that every single part of U.S. securities law is necessary, there is going to be a danger if you lose some of those protections."

Large companies that list on the Pink Sheets say they're not weakening their disclosure. Paellmann says international and German rules are "quite strict," including a 2009 German law that mimics many of the provisions of Sarbanes-Oxley. While Coulson says such factors make the OTCQX stocks generally safe for individual investors, he acknowledges that if you're going to trade on the Pink Sheets, "you need to know what you're doing." *—Ben Steverman*

The bottom line *Big foreign companies save money by listing on the Pink Sheets. Investors who want to trade there should know what the rules are.*

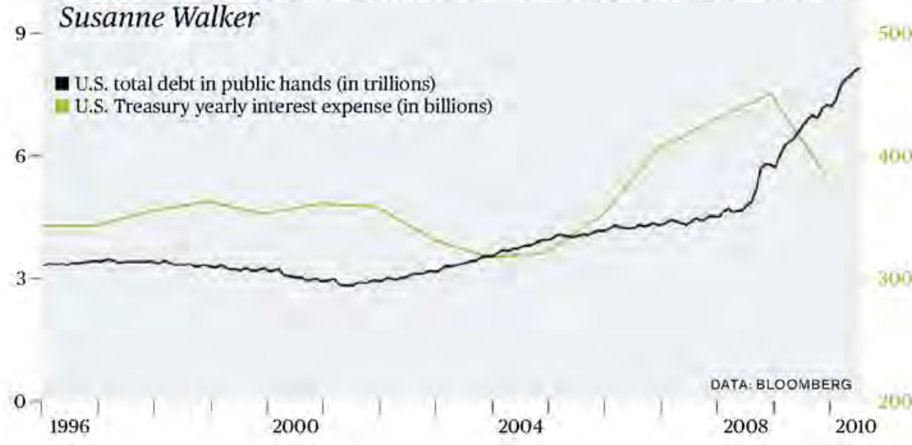


JIM R. BOUNDS/BLOOMBERG

Government Bond Market

More Debt Costs the Treasury Less

Even as the amount of U.S. government debt in public hands has soared by 70 percent, to $8.18 trillion over the past two years, the cost of servicing that debt has come down, thanks to ultralow interest rates. *—Liz Capo McCormick and Susanne Walker*





Toll Brothers has put builders to work at Hasentree in North Carolina

Real Estate

Bankrupt Projects Are Springing Back to Life

- Bargain prices lure homebuilders to revive unfinished developments
- "The activity of construction equipment is music to their ears"

Construction crews are returning to Cascades of Groveland, a gated 55-and-older community west of Orlando, almost three years after its bankrupt developer left residents surrounded by empty lots, partially built homes, and an unfinished clubhouse.

Shea Homes, a builder based in Walnut, Calif., bought the remaining 761 lots from **Bank of America** in June and reopened the project on Aug. 25 with a new sales office, lower prices, and a new name: Trilogy. Homeowners, who had taken over the guardhouse for mah-jongg, bingo, and poker games, are looking forward to the opening of the 38,000-square-foot recreational center with indoor and outdoor pools, tennis courts, and a card room. "For the people here, the activity of construction equipment is music to their ears," says Eric Sorkin, 61, president of the homeowners association at the development 35 miles northwest of Disney World. "There's a future."

Developments are being resuscitated everywhere from California, Utah, and Las Vegas to the suburbs of Washington, D.C., according to Brad Hunter, chief economist for Metrostudy, a Houston-based housing researcher. "This is a natural progression of the cycle," Hunter says. "Projects fail; the price of the asset drops until it reaches a point where it's profitable for someone else to pick it up and re-market it."

Faced with record low demand, builders are trying to boost margins and revenue by pulling unfinished projects out of mothballs. They are buying lots at less than half their original price from lenders eager to move distressed construction loans off their books. They're also benefiting from cheap land and falling construction and labor costs as they try to lure buyers with prices that, in some neighborhoods, are little more than the cost of a foreclosed home.

The 12 largest homebuilders by market value added 16,631 lots to their control over their two most recent quarters, according to data compiled by Bloomberg. "We're buying lots for less than the cost of the improvements," says Joe Salisbury, a partner at **Candlelight Homes**, a homebuilder in South Jordan, Utah. "If someone offered me raw land for free next door, I wouldn't even want it because it would cost me more to build out the lots."

Picking up where another builder left off can be complicated by the passing of years. Without attention, weeds grow, swimming pools turn green, government permits expire, and homeowners associations become insolvent, says Taylor B. Grant, founding principal of California Real Estate Receiverships, a consulting firm in Newport Beach, Calif.

Yet homebuilders still see advantages to picking up these properties. In the Phoenix metro area alone, work has restarted at about 48 communities, according to Land Advisors Organization in Scottsdale, Ariz. **Meritage**, which builds in Texas, Nevada, Arizona, California, and Florida, has bought 100 projects with 5,400 finished lots since the first quarter of last year and has restarted work on about half of them, according to Brent Anderson, vice-president for investor relations at the Scottsdale-based company.

Toll Brothers, the largest U.S. luxury homebuilder, paid $23 million to **SunTrust Bank** in February for Hasentree, a foreclosed golf course community in Wake Forest, N.C., that was once appraised at $78 million, according to Tom Anhut, Toll Brothers' group president in the state. Hasentree was built around a Tom Fazio-designed 18-hole course. At the time of the sale, it had a completed activity center, roads, 100 developed home sites, 218 raw sites, 18 new homes seeking buyers, and 40 occupied houses. Since Hasentree's sales office reopened in July, buyers have put deposits on four new homes, with listing prices starting at $669,995, Anhut says. Hasentree's original homes sold for an average of $1.5 million.

It's possible that the revived projects could contribute to a delay in the U.S. housing recovery by adding to the supply of available homes, says Metrostudy's Hunter. At the same time, builders are being cautious about flooding the market by limiting the

80

THOUSAND

The number of jobs securities firms around the world may cut over the next 18 months as revenue growth begins to slow, according to analyst Meredith Whitney.

number of houses they are constructing without having buyers lined up, he says. Whether the projects will overburden the market will become clear in coming quarters, says Jill Lewis, homebuilder specialist for Land Advisors, because many builders purchased lots around the same time, and will likely get ready to market them at about the same time.

Residents of Trilogy, who have become close in the years since construction halted, are looking forward to having new neighbors, says Sorkin, the homeowners association president. The clubhouse, which Shea plans to complete in phases over the next two years, will be central Florida's best, Sorkin predicts. "It will attract many buyers," he says. "And of course, it will be a wonderful retreat for people who live here." *—Prashant Gopal and John Gittelsohn*

The bottom line *Bargain prices make it cheaper for homebuilders to acquire unfinished developments and complete them than to build from scratch.*

Mutual Funds

Managers Struggle As Stocks Move in Sync



- **It's tough to stand out in a monochrome market**
- **Strategists thought "stock selection would add value" this year. It hasn't**

As manager of the **Fidelity Contrafund**, William Danoff (above) has compiled one of the best long-term records in the mutual fund business, gaining an annualized 8.8 percent a year over the 15 years through Sept. 3, better than 96 percent of his peer group, according to Morningstar. One key to his success: making sure his portfolio isn't just a mirror of the overall U.S. market. Recently, for example, he had almost twice as much in tech and consumer discretionary stocks as the Standard & Poor's 500-stock index, and 19 percent of his assets in non-U.S. holdings. Yet this year, Contrafund, with $62 billion in assets, has tracked the benchmark index more closely than in any period in its four-decade history.

Danoff, who declined to comment, is not alone. Six of the 10 largest U.S. stock funds have reported correlations of 0.99 this year, according to data compiled by Bloomberg, meaning their moves almost exactly matched the S&P 500. (A correlation of 1 indicates identical movements; -1 indicates opposite swings.) Fear of another crisis prompts investors to move in and out of markets without discriminating among securities, industries, or geographies, says BlackRock Chief Equity Strategist Robert Doll.

FROM LEFT: MATTHEW STAVER/BLOOMBERG; GREG MABLY



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A better way on executive pay page 56 ▶

Correlation between assets shot up during the 2008 credit crisis, when stocks, commodities, real estate, and riskier bonds simultaneously plunged in value. All those assets rose last year in the biggest stock market rally since the 1930s and a record rebound in credit markets. Correlation has persisted in 2010 because of concerns over the European debt crisis and weaker U.S. economic growth. The attitude of investors in 2008 was "get out and ask questions later, while 2009 was all about get in and ask questions later," says Doll, who is responsible for about $500 billion in assets. "We were expecting 2010 to be the year when stock selection would add value. That hasn't been the case."

The correlation of the S&P 500 with its member stocks was 0.81 in the 50 trading days through July 7 and has since remained close to that level, according to data from Birinyi Associates, a Westport (Conn.) research and money management firm. That's almost twice the historical average of 0.45 over the past 30 years.

Mohamed El-Erian, the chief executive officer of Pimco in Newport Beach, Calif., says investors have a "risk-on/risk-off" attitude that leads to sometimes "violent" swings, such as the sell-off in markets worldwide on Aug. 11, after the Federal Reserve indicated that the economic recovery had lost momentum. "We were particularly struck by the size and correlated nature of the market moves," says El-Erian.

The increase in correlation is making it difficult for actively managed funds to produce better returns than lower-cost index funds, which seek to mimic a benchmark. Says Todd Rosenbluth, an analyst with S&P in New York: "You can't pick any mutual fund, even if it has previously been a winner, and expect it to outperform in this market."
—*Sree Vidya Bhaktavatsalam*

The bottom line *With stocks moving in lockstep, it's even harder for managers to beat the market, strengthening the case for low-cost index funds.*

Investment Banking

Wall Street Faces A Grim Third Quarter

- Less activity in the stock and bond markets may crimp profits
- "The recovery in trading is not going to be very dramatic"

After two months bankers would like to forget, Wall Street may need a September to remember to avoid the worst quarter for investment banking and trading revenue since the peak of the financial crisis. "Activity levels in the last three weeks of September should be a lot better than July and August, but it would have to almost be off-the-charts good to save the third quarter," says Jeff Harte, a Chicago-based analyst at Sandler O'Neill & Partners.

Troubling economic data and uncertainty over European sover-

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Some global investors are ignoring the small Tel Aviv market

eign debt and the global recovery led investors to step back from the markets, analysts say, cutting the volume of stock and bond trading. Equity investors traded a daily average of 14.2 billion shares on U.S. exchanges in the third quarter through Sept. 3, according to Bloomberg data. That's the worst start of any quarter since the first three months of 2009. Corporate bond trading in July and August was down 8 percent from the same period in 2009, according to Trace, the bond-price reporting system of the Financial Industry Regulatory Authority.

The five largest Wall Street firms by investment banking and trading revenue—**Goldman Sachs, JPMorgan Chase, Citigroup, Bank of America**, and **Morgan Stanley**—may not get much of a boost from their advisory work. While the dollar value of completed mergers and acquisitions is up slightly for the first two months of the quarter from the same period last year, debt and equity underwriting totals have fallen. The five firms generated $67.1 billion in the first half of the year from advisory, debt and equity underwriting, and trading stocks and bonds. That was down 12 percent from a year earlier. They booked more than five times as much revenue from trading in the first half as from advisory and underwriting. Spokesmen for the five banks declined to comment about third-quarter trading or their investment banking businesses.

A recent flurry of deals offers hope for future quarters. Companies announced mergers and acquisitions totaling $404.5 billion in July and August, more than double the $195.2 billion a year earlier, according to data compiled by Bloomberg. Along with helping banks generate greater fees, more deals will spur increased stock and bond trading, says Richard Bove, an analyst at Rochdale Securities in Lutz, Fla. "If the M&A market picks up the way I think it will, [it] will give a boost to get trading going again," Bove said in an Aug. 23 Bloomberg Television interview. "This recovery in trading is not going to be very dramatic, and it's not going to be very quick. It's going to be over a longer period of time." —*Michael J. Moore*

The bottom line *After a slow summer, Wall Street needs a burst of activity in September to avoid a weak third quarter in investment banking and trading.*

Quoted

"A growing number of Chinese investors are also discovering the gold market. The Chinese demand will now increasingly be felt on the global markets."
—Jochen Hitzfeld of UniCredit, who raised his estimate for gold's average price next year to $1,400 an ounce. On Sept. 8, gold closed at $1,257 an ounce.



Global Stocks

Israel Gets an Upgrade, And Investors Depart

- **Returns suffer after a move to the "developed" category**
- **The market "might be in no-man's-land for a while"**

A move by **MSCI**, the creator of stock market indexes, to reclassify Israel as a developed market rather than an emerging one has led some big investors to abandon the country. Harvard University and mutual fund companies **T. Rowe Price** and **Eaton Vance** sold a combined $210 million in Israeli stocks from their emerging-markets investments last quarter, according to Bloomberg estimates.

Many money managers use indexes as the basis for allocating investments. Funds focusing on mature economies have been slow to buy Israel shares because the country accounts for just 0.4 percent of MSCI's developed-markets index, compared with about 3 percent of its emerging-markets measure. "Israeli stocks might be in no-man's-land for a while," says John Derrick, director of research at U.S. Global Investors in San Antonio. "It's small enough in the developed market index to avoid altogether." U.S. Global's Global Emerging Markets Fund sold 9,346 shares of

THIS PAGE, TOP: GIL COHEN MAGEN/REUTERS. OPPOSITE PAGE, FROM TOP: ALAMY; GETTY IMAGES; BLOOMBERG; GETTY IMAGES; AGE FOTOSTOCK; ALAMY; ECKSTEIN/RETNA LTD./CORBIS; GETTY IMAGES

Israel Chemicals during the second quarter, according to data compiled by Bloomberg.

The shift has hurt Israeli stocks. The Tel Aviv 25 Index climbed 2.8 percent from May 27, when Israel was added to the developed market measure, through Aug. 31, trailing the 7.3 percent increase in the MSCI Emerging Markets Index and the 4.9 percent advance of the MSCI EAFE Index, which Israel joined.

Derrick says the country may attract new funds after a transition period because it has stronger economic growth than other developed markets. Citigroup estimated in March that $2.8 billion from index tracking funds would pull out when Israel was reclassified, and $3.6 billion would eventually enter. **Teva Pharmaceuticals**, with a market value of $48 billion, and Israel Chemicals, at $16.5 billion, are the two biggest stocks in the Tel Aviv 25 Index.

In 2002, professors and students from Harvard and the neighboring Massachusetts Institute of Technology called on the universities to divest from Israel and from U.S. companies that sell arms to the country, to protest Israel's occupation of Palestinian territory. Harvard's sales in the second quarter reflect the change to the MSCI emerging markets index and don't represent a divestment from Israel, according to John Longbrake, a Harvard spokesman. Harvard is continuing to invest in Israel through the outside managers who handle most of the endowment, Longbrake said.

The MSCI upgrade reflects diminished concern by investors over geopolitical risks when buying Israeli stocks, according to Frank Nielsen, an executive director at the New York-based firm. Israel had already satisfied developed market criteria related to economic sustainability, market size and liquidity, and market accessibility. Israel was MSCI's first upgrade since Greece was moved up in 2001. The Athens Stock Exchange General Index lagged behind the Stoxx Europe 600 Index by 8 percentage points in the 12 months following the promotion on May 31 of that year.

—Sree Vidya Bhaktavatsalam, Christopher Condon, and Gillian Wee

The bottom line *Being upgraded to a developed market has made Israel a little fish in a bigger pond. Rapid growth may lure investors back.*

Bid & Ask

by Ira Boudway and Caroline Winter



❶ Petroleo Brasileiro, Brazil's state-controlled oil producer, plans to raise as much as $75 billion in the world's largest share sale to date. The offering includes $42.5 billion in shares for the state in exchange for the right to develop oil reserves.

❷ Enterprise Products, the largest U.S. pipeline operator, will buy Enterprise GP for more than $8 billion as part of a corporate reorganization of the interests of the late Dan Duncan. Said to be Houston's richest man, Duncan died in March at 77.

❸ Vodafone is selling its entire $6.5 billion holding in China Mobile. Vodafone says the stake, amounting to 3.2 percent of China Mobile, is not an essential asset.

❹ Russia has agreed to increase coal shipments to China in return for a $6 billion loan. The loan will help Russia finance new coal production to feed China's growing demand.

❺ The National Bank of Greece plans to raise $3.6 billion to bolster capital. The bank's stock has declined 42 percent this year. Greek banks face soaring loan losses as the government imposes austerity measures following the country's €110 billion bailout in May.

❻ Goldcorp, Canada's second-biggest gold producer, agreed to buy Andean Resources for $3.5 billion to gain control of an Argentine mine that may produce 285,000 ounces of gold a year starting in 2012. Andean says it will consider new bids.

❼ Minnesota plans to sell $900 million in long-term bonds on Sept. 8. The offering is the state's largest ever, as borrowing costs remain at near-record lows and the state's budget deficit approaches $6 billion.

❽ Kansas-based Mariner purchased a $760 million portfolio of real estate loans at a Federal Deposit Insurance Corp. sale of assets seized from failed banks. The portfolio includes roughly 1,100 residential and commercial loans.

❾ In his largest charitable gift ever, billionaire fund manager George Soros will donate $100 million to Human Rights Watch over the next 10 years via his Open Society Foundations.

❿ Costa Rica plans to spend up to $50 million a month in the foreign-exchange market in what analysts say is a bid to weaken its currency, the colón, which has climbed to a two-year high.

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▶ **The mental and physical impact of long-term unemployment may be overstated**

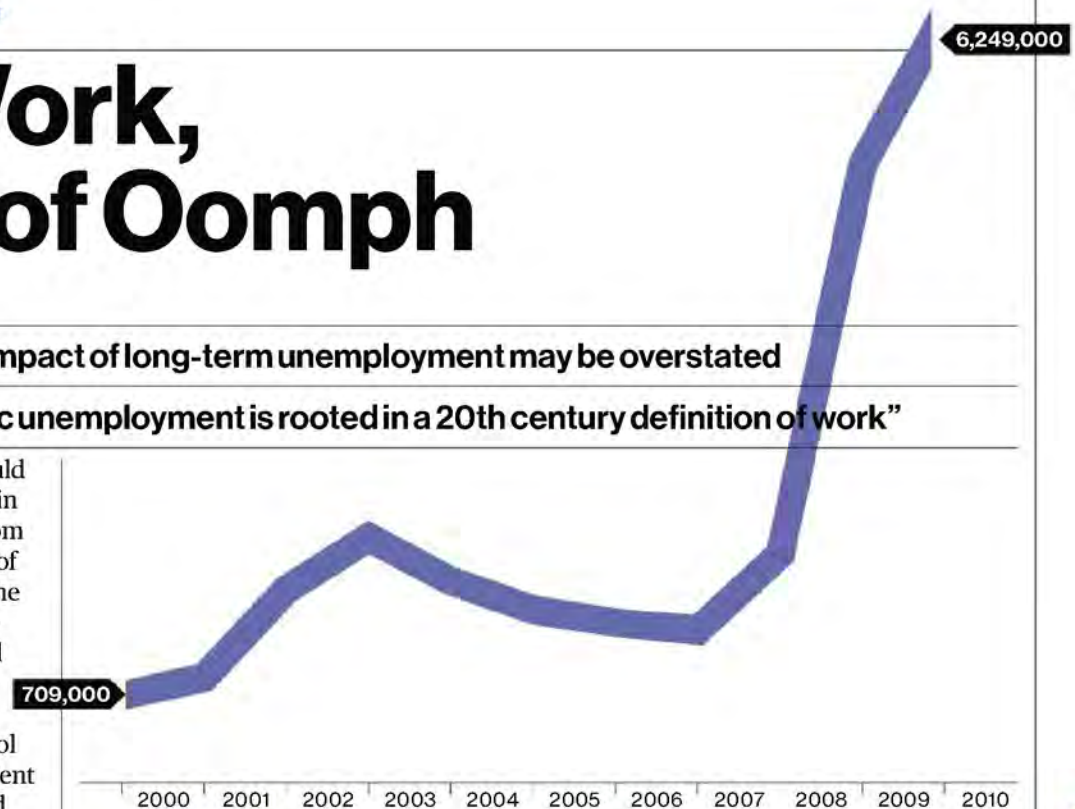
▶ **"The debate about chronic unemployment is rooted in a 20th century definition of work"**

By some accounts, Robert Weiss should be damaged goods. Despite a degree in economics from Harvard, an MBA from MIT, and a résumé chronicling years of senior titles and six-figure incomes, the 60-year-old New York City human resources executive was jobless for well over a year. According to academic studies from institutions such as Columbia University and the Paris School of Economics, that places him in a talent pool facing higher mortality rates and eroded skills. As a skilled older worker, Weiss might be expected to be particularly depressed–and recovering from that could hurt his productivity in any new job. The implication for employers: Be wary when hiring from the pool of 6.2 million Americans out of work for 27 weeks or longer.

Yet Weiss is doing fine. He kept busy and motivated while job-hunting by working the phones, scheduling breakfast meetings, and attending networking events. He's several months into a new job he's excited about, as vice-president of compensation and benefits at **Kaplan**, the test preparation and education company, and he says he makes close to what he earned in his previous job.

The accepted line on the long-term unemployed is that they suffer deep mental scars. Tom Rath, global practice leader at Gallup, cites a study in *The Economic Journal* that found that those out of work at least a year took longer to recover than those who'd lost a spouse. "At best, it takes several years to get back to where you were," says Rath. The higher your skills, the more likely you are to suffer psychologically–especially if you live in an area where unemployment is low, says Andrew Oswald, a behavioral science professor at University of Warwick.

What some academics and labor economists are now starting to question is whether the results of widely accepted



The ranks of those unemployed for 27 weeks or more is up almost ninefold since August 2000

DATA: BUREAU OF LABOR STATISTICS



After more than a year, Weiss is back at work—and doing just fine

PHOTOGRAPH BY NATHAN PERKEL FOR BLOOMBERG BUSINESSWEEK

Talent

23

PERCENT

of employees in the second quarter who had a "high intent" of staying at their companies, vs. 24.6 percent in the first quarter

DATA: CORPORATE EXECUTIVE BOARD GLOBAL SURVEY OF 130,000 EMPLOYEES

studies should be applied to the current situation. They note that many studies of the emotional and physical fallout from sustained unemployment are rooted in an era long past. The nature of modern careers and the tools available to the jobless are vastly different even compared with just 10 years ago, and workers have far more resources and networks.

Start with the assumption that the long-term jobless face a multitude of physical and mental ailments. Numerous studies have pointed to such collateral damage, from sociologist Mirra Komarovsky's research on the impact of joblessness on families during the Depression to much cited research on mortality rates among men who lost jobs in Pennsylvania in the 1970s and '80s.

Daniel G. Sullivan, research director at the Federal Reserve Bank of Chicago and a co-author of the Pennsylvania study, cautions that "we were looking at an extreme case [of] workers who lost jobs they'd had for long periods of time." Workers who have moved around in their careers may react differently to unemployment, he notes. Moreover, adds co-author and Columbia University economist Till von Wachter, higher death rates were tied to losing a job—not to how long a person was out of work. Says Von Wachter: "It's very hard to establish a clear link between the duration of unemployment and mortality rates."

Von Wachter is even more skeptical of job loss as a cause of long-term depression. "Just because there's a correlation doesn't mean there's causality," he says. While studies of unemployed workers in Germany and the U.K. suggest psychological damage that can be severe and lasting, other studies highlight resiliency. The University of Warwick's Oswald found that "once you find work again, there's a huge recovery in happiness. There's nothing wrong with these individuals. They just need work."

It's also not clear that a long time out of work erodes skills significantly. Heidi Shierholz, an economist at the Economic Policy Institute, argues that "when you look at the U.S. labor market, it's hard to think of many jobs where the world would pass you by" after six months or more. Software engineers perhaps, but most Americans aren't in highly technical or fast-changing careers—and those who are often have access to courses, blogs, social networks, and other tools.

The debate about chronic unemployment is rooted in a 20th century definition of work, in which people have stable jobs, says Richard Price, a psychology professor at the University of Michigan's Institute for Social Research. As jobs become more fluid and temporary, workers can adapt with training. "Those past studies are true of those people at those times, but we've undergone huge societal changes," he says. As fewer people think of a full-time job with one employer as the norm, the impact of losing a job will change. What hasn't kept up, Price says, is the policy response: "When you blame the victim and do nothing to help them find another income, you create chronic unemployment."

A look at the recent experience of Teresa Fritschi of Rochester, N.Y., yields a sense of how the nature of the work is changing. While Fritschi, 49, spent the past few years looking for a job, she also built on 26 years of experience in marketing and communications by creating the retail website thistleandbroom.com. It doesn't pay the bills, she says, but "I've developed new skills." She figures she'll mostly freelance from now on.

There's still a stigma to long-term unemployment. Yet executives like Ellen Michel, who heads human resources for Torrance (Calif.) manufacturer Pelican Products, recognize "a lot of good people are out of work [because] manager positions are few and far between." Finance sector recruiter Paul Sorbera, president of Alliance Consulting, says many clients want "seasoned professionals with a Rolodex and client relationships." Being out of work for a year isn't a big deal if someone proves they've kept up relationships, he says.

Kaplan's Weiss says he doesn't feel traumatized—just happy to be back in the game. His biggest worry is for his daughters, ages 26 and 29. The older one is a stagehand-turned-school administrator who just lost her job; the younger is a struggling screenwriter. "This generation doesn't seem as focused on career," says Weiss. "They're more willing to put together a number of jobs to make a living." It's all fine, he says, as long as they make ends meet. And yet, he says, "If they're not more gainfully employed in 12 to 18 months, I'd start to worry about their self-esteem." —*Diane Brady*

The Bottom line *The accepted belief that long-term unemployment causes lasting physical and psychological damage may be outdated.*

Unsolicited Advice

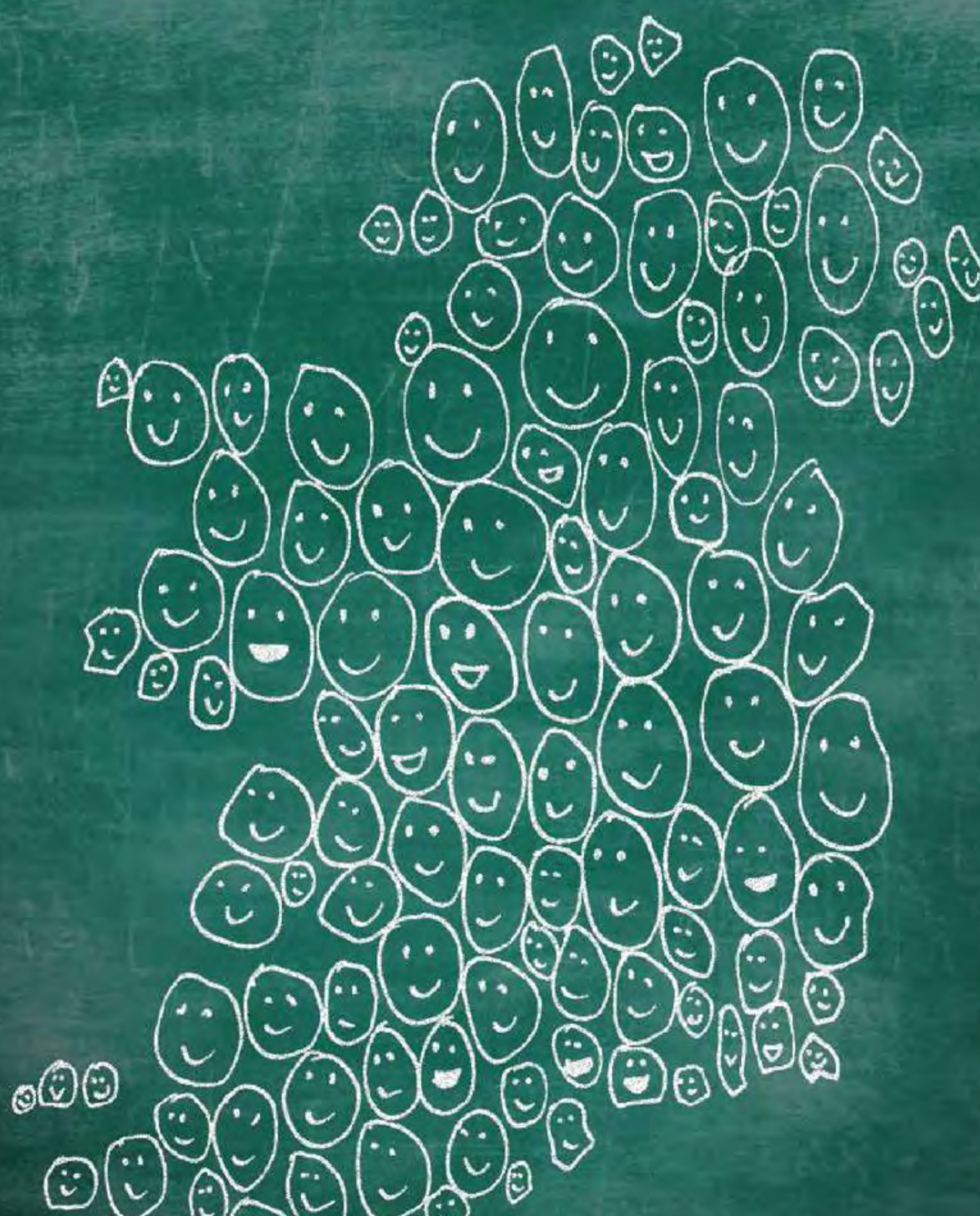
Bob McDonald, Chief Executive Officer, Procter & Gamble

"In filling positions abroad, we've reduced the number of expatriates we hire dramatically. We simply don't need as many of them, but we still use those positions to create future leaders. In China, 98 percent of our employees are Chinese. Also, as a global company, you have to adapt. We became the first consumer products company to hire women in Saudi Arabia. A woman does not have a passport. They're not allowed to drive. When our female employees travel, they have to have a guardian with them. We had to have a special office for them, and a conference room with glass between the men and women."



ILLUSTRATION BY ANDY FRIEDMAN

New thinking is not about the dollars you invest.



It's about the people you invest in.

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Talent

The 21st century Henry Ford page 58 ▶



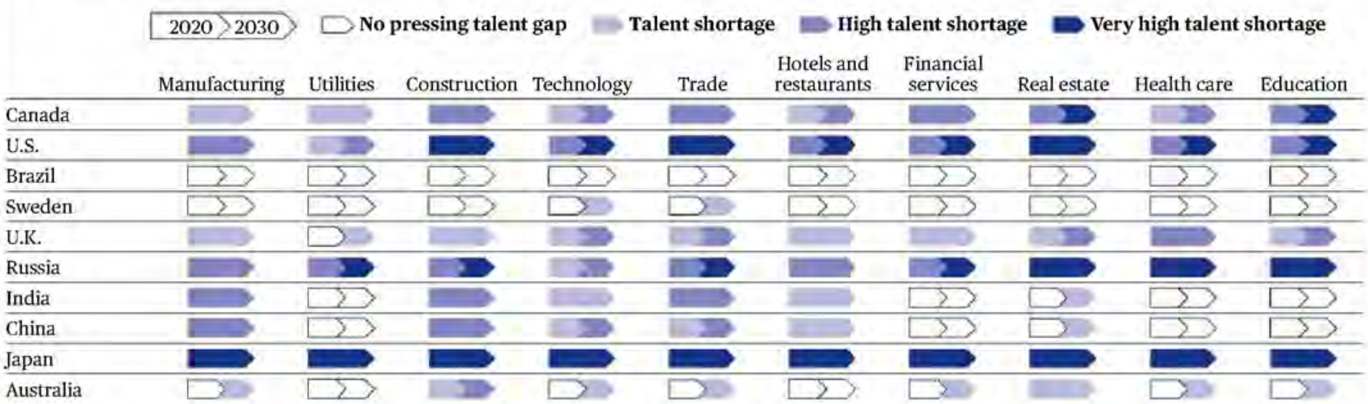
Human Resources

New Priorities for Employers

To get a global read on management practices, Boston Consulting Group and the World Federation of People Management Associations surveyed 5,561 HR professionals in 109 countries and did 153 one-on-one interviews. "Creating People Advantage 2010" is out Sept. 27. —*Suzanne Woolley*

Where the Skill Gaps Are

HR executives project high worker shortages in many professions by 2020 and 2030. Japan's aging workforce and immigration policy may leave it short across the board.



Note: Country/industry assessment scoring is based on the size of the current employment situation, the compound annual growth rate difference between supply by country and demand by industry, and the CAGR difference between labor supply and demand on the country level.

Reordering the Agenda

Post-recession, the HR executives surveyed ranked managing work/life balance as a low priority. More important now: boosting employee engagement, or morale.

2008 Ranking		2010 Ranking	
Managing talent	1	1	Improving leadership development
Improving leadership development	2	2	Managing talent
Managing work-life balance	4	3	Enhancing employee engagement
Managing change and cultural transformation	5	4	Measuring workforce performance
Enhancing employee engagement	7	5	Improving performance management and rewards
Improving performance management and rewards	8	10	Mastering HR processes
Measuring workforce performance	9	12	Managing change and cultural transformation
Restructuring the organization	10	15	Restructuring the organization
Managing demographics	12	16	Managing work-life balance
Mastering HR processes	13	19	Managing demographics

What the Future Holds

HR professionals were asked about measures taken during the recession and whether they will be continued.

- Actions performed in 2009
- Actions to be continued in the future

Measure	Actions performed in 2009	Actions to be continued in the future
Bonus payments were cut back or postponed	44%	23%
Overtime was no longer paid out	21%	50%
Base salaries were reduced	19%	28%
Pension plans were reduced	9%	52%
Employees forced to take their vacations	35%	48%
Part-time work arrangements increased	19%	46%
Unpaid leaves were increased	18%	29%
Employees encouraged to go on sabbatical	11%	43%
Recruiting was cut back	63%	30%
Employees were laid off	48%	17%
More temporary employees hired	24%	47%
Early retirement was increased	21%	33%

DATA: BOSTON CONSULTING GROUP, WORLD FEDERATION OF PEOPLE MANAGEMENT ASSOCIATIONS

PHOTOGRAPH BY TONY LAW FOR BLOOMBERG BUSINESSWEEK



verizon

alchemist

aka Asif, Verizon Team Member

At Verizon, I've been given the chance to use my analytical skills to change the way we think about Human Resources.

[With statistics, I can identify the talents in others and guide them toward the perfect career – it's so rewarding!]

training TOP 125

At Verizon, we're changing the way the world lives, works and plays, and that's just one of the many reasons it's such a great place to start a career. When you join Verizon, you join a team of talented, dynamic, and ambitious achievers whose positive energy drives who we are, what we do, and the company we create. Are you ready for an unprecedented opportunity? We offer careers for everything you are.

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Bill George

Executive Pay: Rebuilding Trust in an Era of Rage



Finance reform will bring unintended consequences. Before the new regs arrive, boards need to bulletproof their compensation policies

With 26 million people unable to find full-time jobs, Americans are outraged by disparities in pay between executives and average workers as real incomes continue to decline. Multimillion-dollar bonuses at American International Group and Merrill Lynch certainly didn't help. Two consecutive years of declining CEO pay, on the other hand, haven't either.

As a result, politicians are lining up to give shareholders greater control over executive pay. On the surface these changes sound like shareholder democracy, which would be a good thing. But rather than solving problems with executive compensation, they may result in myriad unintended consequences.

Case in point: The Dodd-Frank Wall Street Reform and Consumer Protection Act grants shareholders advisory votes on compensation, allows activist shareholders with only 3 percent ownership to nominate board members, and prohibits voting by retail brokers representing small shareholders. These changes are likely to empower short-term money movers such as hedge funds at the expense of long-term owners–and pressure management to focus on the short term, which is the exact opposite of what's needed.

In another example of good intentions not adequately thought through, *The New York Times* called on the Securities and Exchange Commission to publish ratios of CEO pay to "typical employees," ignoring variations between industries. What about businesses focused on low-wage emerging markets? What about differences between high-wage software developers and low-wage service companies?

Imposed formulas for executive compensation simply won't work at many companies. And we've seen how powerful the temptation can be for executives to manipulate short-term results to increase their compensation.

The regulations that will spring from Dodd-Frank are still being written. In the meantime, rather than just responding to pressures, boards and CEOs have a shot at restoring the confidence of the public by crafting responsible compensation policies unique to their needs. Doing this now will give U.S. companies an edge in fending off investors who are in it for the quick kill. It will also raise their odds of holding on to the top talent whose pay is the target of all this debate and ire.

Here are six policies that should be rigorously followed, including in bad times when boards are more prone to bend the rules for those in their top ranks:

1. *Provide full transparency for compensation policies and actual practices.* Principles and pay policies should be consistent over time. Novartis has been the forerunner in Europe by making its compensation practices fully transparent.

2. *Create policies that reward long-term performance with long-term pay.* ExxonMobil withholds more than two-thirds of its officers' compensation until they retire or for 10 years, whichever is greater. This focuses executives on long-term results and provides for sound succession.

3. *Reward executives for their performance, not the company's stock price.* Target, for example, compensates its executives based on same-store sales performance relative to its peers.

4. *Lengthen the time horizon for bonuses.* Companies should withhold significant amounts of compensation using restricted stock, with forfeiture for accounting adjustments and leaving the company. In 2009 the top 30 officers of Goldman Sachs received no cash, getting bonuses in restricted stock with three-to-five-year vesting periods instead.

5. *Avoid formulaic approaches.* Compensation tied only to short-term metrics leads to long-term problems. Companies should include qualitative performance measures like strategy implementation, research milestones, and leadership development. To make its shift to "leading by values" relevant, IBM includes bonus opportunities for furthering its values, especially in global collaboration.

6. *Boost equity between workers and executives.* People with greater responsibilities should receive greater compensation, but one way to signal that everyone matters is to drop special plans, benefits, and perks for executives. Medtronic gives employees a "means to share in the company's success" by enabling them to become shareholders through company-funded employee stock ownership plans.

To rebuild trust and negate the impact of restrictive regulations, corporate boards must develop compensation systems that reward all employees fairly and are applied consistently. This will focus leaders on long-term value creation and give boards a solid footing from which to defend their policies. It might even enlighten policymakers as they figure out how to put Dodd-Frank into practice.

Bill George, professor of management practice at Harvard Business School, is a former chairman and CEO of Medtronic and is on the boards of Exxon and Goldman Sachs.



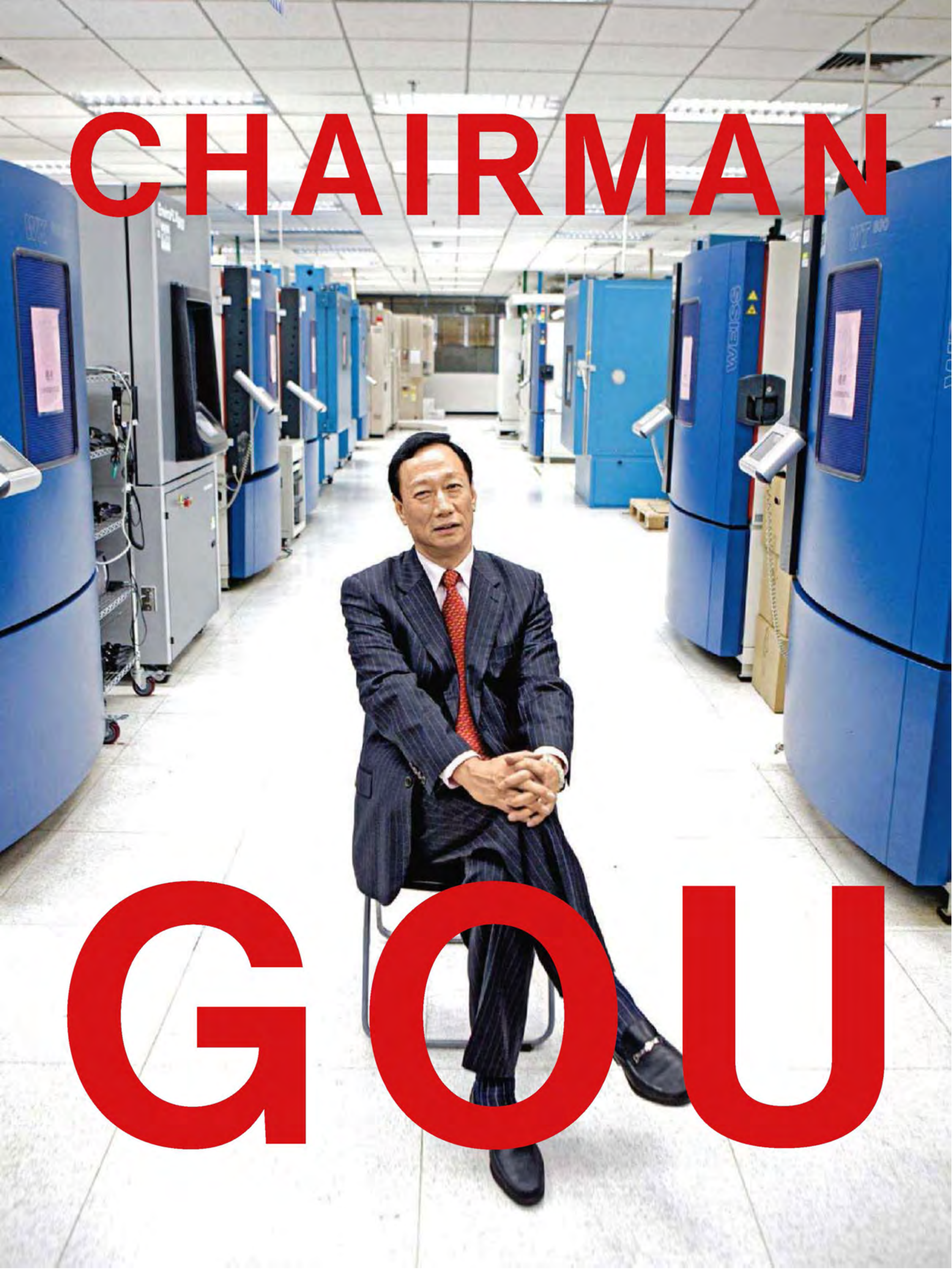
Next.

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CHAIRMAN GOU



TERRY GOU NEVER STOPS THINKING OF WAYS TO SHAVE ANOTHER NICKEL OFF THE COST OF YOUR iPHONE. HIS COMPANY IS CALLED FOXCONN, AND IT EMPLOYS 920,000 CHINESE WORKERS TO FEED THE WORLD'S HUNGER FOR HIGH-TECH GADGETS AND TOYS. HE IS A CHARMING SALESMAN, A RUTHLESS TASKMASTER, AND A DARING STRATEGIST. HE MIGHT BE REGARDED AS HENRY FORD REINCARNATED, IF ONLY A DOZEN OF HIS WORKERS HADN'T KILLED THEMSELVES EARLIER THIS YEAR. AN EXCLUSIVE LOOK INSIDE A POSTMODERN INDUSTRIAL EMPIRE

By Frederik Balfour and Tim Culpan

Photographs by Tony Law

On a crushingly hot mid-August day at Foxconn's Longhua factory campus in Shenzhen—where a dutiful army of 300,000 employees eats, sleeps, and churns out iPhones, Sony PlayStations, and Dell computers—workers indulged in a rare moment of celebration. First, there was a parade, an Alice in Wonderland spectacle of floats, blaring vuvuzelas, and workers dressed up as Victorian ladies, geishas, cheerleaders, and Spider-Men. This was followed by a two-hour rally inside a vast sports stadium featuring acrobats, musical performances, fireworks, and life-affirming testimonials punctuated by chants of "treasure your life" and "care for each other to build a wonderful future."

It was hardly a spontaneous outpouring. Rather, it was a joint production of employee unions and management at Hon Hai Precision Industry, the flagship of Foxconn Technology Group, as part of an effort to mend the collective psyche of a Chinese workforce that numbers more than 920,000 across more than 20 mainland factories. The need to do so became apparent after 11 Foxconn employees committed suicide earlier this year, most of them by leaping from company-owned high-rise dormitories. The publicity-averse Taipei-based company and its 59-year-old founder and chairman, Terry Gou, were thrown into the spotlight, subjected to unfamiliar scrutiny by customers, labor activists, reporters, academics, and the Chinese government.

The suicides introduced Foxconn to much of the world in the worst terms imaginable—as an industrial monster that treats its workers like machines, leveraging masses of cheap labor, mainly 18-to-25-year-olds from rural areas, to make products like the iPhone at seemingly impossible prices. For Western consumers, the lost lives were an invitation to consider the real cost of their electronic playthings. For the image-conscious companies with which Foxconn does business, including IBM, Cisco, Microsoft, Nokia, Sony, Hewlett-Packard, and Apple, the suicides were a public-relations nightmare and a challenge to offshoring strategies essential to their bottom lines.

Foxconn made matters worse with a slow and initially clumsy response. In an exclusive interview with *Bloomberg Businessweek*, Gou conceded that he didn't immediately grasp the significance of the suicides. "I should be honest with you," he says. "The first one, second one, and third one, I did not see this as a serious problem. We had around 800,000 employees, and here [in Longhua] we are about 2.1 square kilometers. At the moment, I'm feeling guilty. But at that moment, I didn't think I should be taking full responsibility." After the fifth suicide, in March, Gou says, "I decided to do something different."

It actually wasn't until late May, after the ninth Foxconn employee had leaped to his death, that Foxconn went into full crisis management mode, stringing more than 3 million square meters of yellow-mesh netting around its buildings to catch jumpers and setting up a 24-hour counseling center staffed by 100 trained workers. Management increased wages for factory workers in Shenzhen by 30 percent, to 1,200 renminbi ($176) per month, and promised a second raise in October. Finally, Gou's company hired the New York firm Burson-Marsteller to help devise a formal public-relations strategy, its first in more than 35 years of existence.

Part of Burson-Marsteller's plan was granting *Bloomberg Businessweek*'s request for unprecedented access to Foxconn's factory floors, worker dorms, suicide-help-line operators, and Gou himself, who in the course of a three-hour interview riffed on everything from Warren Buffett ("He's too old") to the uselessness of business degrees ("You can't read a book to learn to swim") to Steve Jobs ("I forced him to give me his business card"). Gou also mocked New York bankers who "see the Hudson River and say, 'I'm a king of the world.' "

The interview took place at Longhua, the entrance to which looks like a border crossing, with seven toll-booth-like lanes and uniformed guards. Although drab and utilitarian, the campus is a fully functioning city, with fast-food joints, ATMs, Olympic-size swimming pools, huge LED screens that flash public-service announcements and cartoons, and a bookstore that sells, among other things, the Chinese-language translation of the *Harvard Business Review*. Prominent on display are biographies of Gou, one of which collects his many aphorisms, including "work itself is a type of joy," "a harsh environment is a good thing," "hungry people have especially clear minds," and "an army of one thousand is easy to get, one general is tough to find."

Foxconn is now the biggest exporter out of China, and its general is the richest man in Taiwan, estimated by *Forbes* to have a personal fortune of $5.9 billion. He says he cannot confirm that figure, however, as he does not keep track. "I have one guy in charge," Gou says in heavily accented English that he picked up while touring the U.S. in the 1980s. "Every year he gives me a piece of paper and says, 'Hey, this is how much.' I think for me, I am not interested in knowing how much I have. I don't care. I am working not for money at this moment, I am working for society, I am working for my employees."

"WARREN BUFFETT IS TOO FAMOUS," GOU SAYS. "YES HE IS GREAT, YES HE MADE GOOD INVESTMENTS, BUT HE IS TOO OLD. HE DOESN'T UNDERSTAND ABOUT CHINESE PRIVATE COMPANIES."

The colossus that Gou (pronounced "Gwo") runs today started with a $7,500 loan from his mother. His first world headquarters was a shed he rented in 1974 in a gritty Taipei suburb called Tucheng, which means Dirt City in Mandarin. Gou, then 23, had done three years of vocational training and served in the military. He then worked for two years as a shipping clerk, where he got a firsthand view of Taiwan's booming export economy and figured he ought to stop pushing paper and get into the game. With the cash from his mother, he bought a couple of plastic molding machines and started making channel-changing knobs for black-and-white televisions. His first customer was Chicago-based Admiral TV, and he soon got deals to supply RCA, Zenith, and Philips.



THE WORKERS

THE SUICIDE NETS



Imagining his future success, he practiced signing his name in English over and over until he had perfected it. He remains proud of it today, walking over to a whiteboard during the interview and signing with a schoolboy flourish. It looked like the perfect cursive script from the credits of *I Love Lucy*.

Gou's first break came in 1980 when he started supplying Atari of Japan with connectors that linked the joystick cable to its 2600 video-game console. At the height of the Atari craze, Hon Hai was producing connectors for the 15,000 video-game consoles that Atari's Taiwanese plant made daily. Gou wasn't content to be a mere supplier of dumb parts. He applied for patents on the technology his company developed, and he kept pressing into new areas such as cable manufacturing.

In the early '80s, Gou made his first big push into the U.S., visiting 32 states over the course of an 11-month tour. He dropped in on companies unannounced, like a door-to-door salesman, arriving in a "big and safe" Lincoln Town Car he rented in every city. Once, to keep costs low, Gou slept in the backseat. In Raleigh, N.C., he booked himself into a motel close to an IBM facility. After three days of hanging around, he got an appointment and came away with a firm order for connectors. "He is really one of the top sales guys in the world," says Max Fang, the former head of procurement for Dell in Asia who did business with Gou and was his regular golf partner. "He is very aggressive and always on your tail."

As the Taiwanese labor market tightened throughout the '80s and wages rose, manufacturers started moving to Malaysia, the Philippines, and Thailand. Although China was nearby and offered a virtually limitless supply of cheap labor, few companies dared to go there; the primitive infrastructure and inscrutable Communist government scared them off. Gou was undeterred, setting up shop in a dusty suburb of Shenzhen across the border from Hong Kong, where factories producing cheap garments, shoes, and children's toys were springing up. The political situation was tricky. Beijing still regards Taiwan as a one of its provinces that should be integrated back into the motherland, by force if necessary.

In 1991, Gou listed Hon Hai Precision on the Taiwan Stock Exchange to fund expansion, mostly into China. By 1996, he says, it was clear to him that China would become a manufacturing juggernaut, and he started investing heavily in his facilities at Longhua.

Gou's role in revolutionizing manufacturing at the turn of a new century has an obvious precedent. Henry Ford also understood the importance of vertical integration, of producing his own materials, and tweaking his assembly lines for maximum efficiency. Ford dreamed of a corporate empire so large that it would require the population of an entire American state to fuel it. Where Ford had Michigan, Gou had Shenzhen.

To sustain an efficient Chinese workforce, Gou quickly discovered that he had to provide housing, food, and health care, additional costs that kept most of his competitors out of the country. He had to do everything himself. Michael Marks, then chief executive officer of contract-manufacturing giant Flextronics, saw Foxconn's Shenzhen operations taking shape in the late 1990s. "They were making wire out of ingots of copper," says Marks. "They had chicken farms to lay the eggs for the cafeteria. One building had 2,000 toolmakers. We had none at the time. But we did after that."

In 1996, Gou offered to build the chassis for Compaq's desktop computers at a fraction of what it would cost Compaq to do the job itself. (Compaq is now part of HP.) "He had this vision and the guts to do anything in a big way," says Fang. "When I first visited the factory, I saw the whole value chain nicely and effectively designed, starting from a big coil of sheet metal at one end that was cut, formed, welded, and stamped to make the top and bottom of the chassis. Then they did the in-line subassembly, adding a floppy drive, the power supply, and cables. It was all shipped to customers who only had to install the motherboard, CPU, memory, and hard drive. After this revolution by Terry, final computer assembly was easy."

Soon, Foxconn was shipping barebones computers to IBM, HP, and Apple as well, transforming the industry. In 1998, when Gou won his first order from Dell to make the chassis for its desktops, Dell insisted he do it in the U.S., close to the final market. Gou obliged. "I bought a company in Kansas City. We quickly needed tooling shops and stamping," Gou says.

"That factory was a money loser, but Terry had to build it to accommodate Dell against his own will," recalls Fang. "For Foxconn, it bought a ticket into the Dell business." (Dell executives declined to comment for this story.)

The three-decade expansion from television-knob maker to the world's dominant consumer electronics manufacturer passed with little notice from the Western press. That changed in June 2006 when the *London Daily Mail* published a story about harsh conditions for 30,000 workers at Foxconn's iPod factory in Longhua. When two reporters at *China Business News* did their own version of the story, Gou's first reaction was to counterattack. Foxconn sued them personally for libel and secured a court order freezing their assets, backing off only at the behest of Apple and HP.

The incident prompted Apple executives to dispatch an audit team to investigate conditions at the Longhua plant. The report, still available on Apple's company website, uncovered several violations of Apple's code of conduct, including excessive overtime, an overly complicated wage structure, and unacceptable living conditions such as triple-decker bunk beds. Foxconn made changes that included an overhaul of its overtime practices.

Although Apple pressured Foxconn, Steve Jobs wasn't about to sever ties with Hon Hai, not with preparations under way for the production of Ap-

"I'M PRETTY ADAPTABLE, AND I CAN COPE," SAYS A 19-YEAR-OLD FEMALE LINE WORKER. "WHEN I SPEAK TO MY PARENTS, I TRY TO SOUND HAPPY, I DON'T SPEAK ABOUT MY STRESS."

ple's next big product, the iPhone, which came out the following year. "Steve Jobs' achievements wouldn't be possible without Terry," says Chang Tien-wen, author of the 2005 book *The Tiger and The Fox: Terry Gou's Global Competitive Strategy*.

The crisis passed, and Gou, hungry for growth, set his sights on the 200 million-unit-a-year notebook market. Three Taiwanese companies–Quanta, Compal, and Wistron–then dominated the market and were valuable customers for Foxconn, buying billions of dollars' worth of components. Deciding to compete against your own customers is a dicey move. But Gou calculated that in the time it would take them to find new suppliers he could swipe enough of their business to come out ahead. Today, Foxconn controls 4 percent of the notebook market and expects to grab 11 percent next year, according to Yuanta Securities in Taipei.

Therein lies the beauty of the Foxconn model. The margins on the parts it provides for its customers' machines are extremely high, so when it comes to the final assembly work for the likes of Dell, Nokia, or Sony, Foxconn is willing to sacrifice profits–or even do the job at a loss–because it makes so much money from the parts. Analysts expect Hon Hai Precision's sales to grow 40 percent this year, to $85 billion.

Foxconn's business has evolved to the point where it's not just relying on cheap, unskilled labor. It now employs 50,000 toolmakers, including a team of 2,000-plus workers who focus on the design and fabrication of molds and dies. This enables the company to boost production faster than anyone else, especially important in the handset market where new models are constantly introduced. "If you want to look under the hood at Foxconn and understand why they have a high market share, it's because of these things," says Jason Dedrick, associate professor at the School of Information Studies at Syracuse University.

To understand how diversified Foxconn's supply chain is, pry the back off a Nokia 1209 handset. The plastic casing is molded by Foxconn Technology. The speaker is made by Hon Hai Precision, as are the keypad and printed circuit-board connector. The printed circuit board is made by Foxconn Advanced Technology. The TFT LCD screen is made at Chimei Innolux, an affiliate 2.7 percent-owned by Gou. In all, about 70 percent of the phone's components are made by a Foxconn-related company.

As he squeezes costs throughout his empire, Gou also takes huge risks on behalf of his major clients. In Chongqing, in central China, Foxconn is spending $1 billion on a factory that will produce 30 million machines a year just for Hewlett-Packard. When Apple's iPhone4 was nearing production, Foxconn and Apple discovered that the metal frame was so specialized that it could be made only by an expensive, low-volume machine usually reserved for prototypes. Apple's designers wouldn't budge on their specs, so Gou ordered more than 1,000 of the $20,000 machines from Tokyo-based Fanuc. Most companies have just one. "Terry is a strong leader with a passion for excellence," says Tim Cook, Apple's chief operating officer. "He's a trusted partner and we are fortunate to work with him." The Longhua plant now produces 137,000 iPhones a day, or about 90 a minute.

Since the end of May, Gou, who normally divides his time between Hon Hai headquarters in Taipei and China, has been living at Longhua in a room behind his office, dealing with the aftermath of the suicides. He says he works 16 hours a day and eats three meals at his desk. There is scarcely time for indulgences. "I was getting my hair dyed at 11 p.m. last night for this interview," he says, introducing himself with a firm handshake. He hasn't played a round of golf in months and stays fit by doing pushups in the morning and using the time to reflect on "the five-year plan. That's the most important."

"NEW YORK BANKERS," SAYS GOU, "SEE THE HUDSON RIVER AND SAY, 'I'M A KING OF THE WORLD'"

Gou's family came from Shanxi province in north-central China. His father fought with the Kuomintang army in the civil war and fled along with Chiang Kai-shek after his defeat in 1949 by the Communists led by Mao Zedong. He eventually became a mid-rank police officer in Taipei. Terry is the oldest of his three boys.

Gou's personal life is the object of much fascination in the Taiwanese press, and in recent years it has been marked by tragedy. Serena, his wife of nearly 30 years and mother of his adult daughter and son, died of cancer in 2005. After his brother Tony died of leukemia in 2007, Gou started showing more of an interest in life beyond the factory gates. He practiced yoga, took his mother, now 85, out regularly for Taiwanese noodles, and became more active in his charity, the YongLin Foundation. He explored his mainland Chinese heritage and bankrolled *Empire of Silver*, a lavish film set in feudal times in Shanxi. His picture started appearing in Taiwan's glossy magazines with beautiful younger women on his arm. Ultimately, he settled down with Delia Tseng, a dance instructor 24 years his junior who had been hired to prepare him for the company's annual Chinese New Year bash, in which he would perform the tango with Taiwanese model Lin Chi-ling. Gou needed training. Delia didn't know who he was, only that he was "an important businessman," according to Bruce Chang, who runs the Taipei studio where she worked. "Terry danced very well for an amateur," says Chang. "Delia said he was very determined."

The two were married on July 26, 2008, at the Grand Hyatt hotel in Taipei. During the reception, Gou mounted the stage, shed his tuxedo jacket, and did 30 pushups to prove his virility. Nine months and four days later, Delia gave birth to a daughter, Hsiao-ru. A second child is due this fall.

Gou has always kept his family close–though in the past, at least, he made it clear that business comes first. His brother T.C. Gou, who served as president of the Foxconn cable and connector division until the mid-1990s, received anything but preferential treatment. According to an executive who has worked with both brothers, Gou would scold T.C. as he would any other employee, sometimes telling him to sit in the back of the room. Eventually, T.C. left to run his own company, Foxlink, which makes cables. Gou explains the shift by saying he didn't want to run a family company–more than

THE TAO OF GOU

环境严苛是件好事。

A harsh environment is a good thing.

走出实验室就没有高科技，只有执行的纪律。

Outside the lab, there is no high-tech, only execution (implementation) of discipline.

千军易得，一将难求。

An army of a thousand is easy to get, one general is tough to find.

向对手学习。

Study your opponent.

人生分三个阶段来看，二十五岁到四十五岁是为赚钱做事；四十五岁到六十五岁，是为理想做事；六十五岁退休以后，是为自己兴趣做事。

Life has three phases: 25-45 is for making money, 45-65 is for following your ideals, after 65 is for retiring and following your own interests.

大陆不是全球化的唯一

Mainland (China) is not the only one globalizing.

饿的人，脑筋特别清楚。

Hungry people have especially clear minds.

我的信心源自于努力与经验。所谓信心是，无论景气再坏，都要相信自己有能力。

My confidence comes from effort and experience. Confidence doesn't matter if prosperity turns bad as I trust my own power/ability.

用外国人的游戏规则打仗。

Use foreigners' rules of the game to fight.

CHINESE TYPOGRAPHY BY SAMMY OR AND JULIUS HUI

60 percent of Hon Hai is owned by pension funds, he points out–and that it was time for T.C. to go his own way.

Gou exhibits severity and kindness in the extreme. According to one former Foxconn executive, at a meeting of about 200 people last year to discuss the company's underperforming mobile-phone division, Gou ordered another executive to remain standing for 10 minutes when his answer proved unsatisfactory. Gou also makes a show of rewarding his employees. While his own official salary is just one Taiwanese dollar, or about 3¢, analysts say he pays executive bonuses out of his own pocket using dividends from his company shares held in trust. That makes it easier for Foxconn to retain top-level staff without hurting the bottom line, says Jamie Wang, an analyst at Gartner in Taipei. His 12 percent ownership in Hon Hai Precision is worth about $4 billion, and he has a stake worth about $300 million in affiliate company Chimei Innolux, a maker of flat-panel displays. At the company's Chinese New Year party, Gou holds a raffle. In 2008 the top prize was 300,000 shares in Hon Hai, a stake now worth $1 million.

When it comes to competitors, Gou fiercely guards his turf. He sued the Chinese battery maker BYD in a Hong Kong court in 2007, alleging that BYD, of which Berkshire Hathaway-controlled MidAmerican Energy holds a 28 percent stake, poached 50 of its employees to set up a rival cell-phone assembly operation and stole trade secrets. Foxconn then launched a similar claim in Illinois. BYD countersued Foxconn in Hong Kong for defamation and alleged that it had bribed Chinese officials and had intimidated a former Foxconn employee into giving false evidence to police.

Stella Li, CEO of BYD Electronic International and one of the three executives named in the Illinois suit, which, like the other suits, is pending, says Foxconn is determined to crush the competition. "They will do anything they can to stop us from becoming a leading player," says Li.

Gou says he can't understand why Buffett didn't do his homework before investing in BYD in 2008.

THE FACTORY





THE GUARDS



THE DORMITORY



THE CRISIS-HELP-LINE DESK

"Warren Buffett is too famous. Yes he is great, yes he made good investments, but he is too old. He doesn't understand about Chinese private companies. If I see him face-to-face, I will say, 'In the U.S. you tell everybody they need to protect their R&D. So how can you invest in a company that steals someone's technology and says it's great?'"

THE FOXCONN EMPIRE



Louis Woo, a silver-haired executive in an open-necked shirt and polka-dot suspenders, is the person Foxconn picked to brief *Bloomberg Businessweek* on the company's transformation into a more benign corporate citizen. Woo, a 62-year-old Macanese American with a Ph.D. from Stanford, delivers a PowerPoint presentation of Foxconn's "Prevention-Reengineering Caring" program. The company has set up 24-hour care centers staffed by certified counselors. It has created a "Campus Loving Heart" website, has started big-brother and big-sister programs in staff dormitories, and is teaching managers to be more attuned to workers' emotional needs. "Yelling is not the only way," says Woo. "The new generation of workers is changing in China, and Foxconn is changing to meet this new reality."

Eric Caine, chair of the department of psychiatry at the University of Rochester and an expert on suicide prevention, says the deaths at Foxconn exhibit the characteristics of a suicide cluster, the copycat phenomenon first observed during Europe's industrialization a couple of centuries ago. What distinguishes conditions in today's Chinese factories from Dickensian workhouses is scale. "When you have more than 900,000 workers you are going to have people with mental-health problems, from romantic breakup and feeling fraught and overwhelmed, to clinical depression, to some who could be psychotic," says Caine, who visited the plant as part of an independent review organized by the West China Hospital at Sichuan University. "Foxconn had set up some employee-support services before the suicides and clearly realized there was an issue, but the contagion and jumping overwhelmed them as it would any organization, and they just got swamped."

The Longhua workers interviewed by *Bloomberg Businessweek* objected to various aspects of how they are treated but not in terms starkly different from the complaints many people have about their jobs. More than two dozen Foxconn employees were interviewed; none showed signs of being afraid to speak freely to a reporter. Those interviewed on the job did so without a supervisor present. Other discussions took place in Internet cafés, staff dormitories, and in the company canteen. Most seem keenly aware of their choices. They work at Foxconn because they want to make money as quickly as possible. Some want cash to buy the things they make. Others want to become entrepreneurs. None of the workers was upset about having to work overtime. To the contrary, the availability of overtime hours was a big attraction.

Li Caihe, a 19-year-old from Gansu province, works a 12-hour shift attaching nine parts to the motherboard of a Nokia N90 handset. "It takes so much concentration, it was very stressful at first," she says. "I know I can go to a counselor, but I don't think it will help. I'm pretty adaptable, and I can cope. When I speak to my parents, I try to sound happy. I don't speak about my stress." Li shares a dorm room with seven other girls and plans to stay on for another year. After that she hopes to open a small business back home, a beauty salon perhaps.

A 23-year-old man who gave his name only as Cheng spray-paints plastic sheets that are then molded into handset covers. He says conditions are much better than at his three previous employers, though he did take part in a one-day strike of 70 people in May that was organized by his department to protest exposure to toxic fumes. They wanted better protection than the paper masks they continue to use. He was skeptical about morale-boosting exercises like the rally in August. "Everyone is happy when they are playing," he says. "After this event, people who are depressed will get depressed again. It's all superficial."

Guo Yan Bing, a 25-year-old from Henan province who works in logistics, spoke while having his eyebrows shaped with a razor on his day off. He lives off-campus with his fiancée in a one-room apartment that costs $44 per month, exactly the amount they receive from Foxconn as a rental subsidy. "This factory is too big," he says. "Low-level and mid-level management aren't educated, and they aren't nice to people. I blame Gou for this. It's always about the boss trying to squeeze money."

Li Xiaofeng, a 20-year-old from a farm in Hunan province, joined Foxconn in May 2009 to work on an HP color printer assembly line at the Longhua campus. Her generation, she says, is far less accepting of long hours, low pay, and verbally abusive managers. "Youth, especially those born after 1990, have a lot more enthusiasm and passion but are easily depressed once they meet obstacles," explains Li. "We are less able to endure suffering." She complains about the cockroaches in her dorm and how she couldn't shower for three days after the water had been turned off recently.

As demanding as Foxconn is, its

record for employee treatment is better than most, partly because of its vast size as well as the intense competition for workers in China. "I can't believe there aren't worse places to work in China than Foxconn," says Flextronics CEO Michael McNamara, "and if someone didn't like working there they could walk across the street and find 10 different places to work."

"They are a leadership company in what they do with respect to higher salaries, better working hours, and better facilities," says Ian Spaulding, managing directory of InFactory-Solutions, a Hong Kong consultancy that works with electronics companies to develop employee grievance programs. To some extent, he adds, Foxconn is a victim of its success. "There are parallels to Nike. It was egotistical about its approach to the world, saying, 'Some of our factories are the best,' so it invited criticism."

Labor watchdogs give Foxconn credit for exceeding the norms. "They pay workers on time and for overtime according to the regulations, and that's why workers always queue to work there," says Geoffrey Crothall, spokesman for Hong Kong-based China Labor Bulletin, a worker-rights organization. "Despite [Foxconn's] repressive regime and the intense nature of the work, it's still better than a small workshop with no guarantee you'll get paid."

The public nature of Foxconn's labor problems could end up benefiting the company, enabling it to pass on the costs of its new worker-friendly initiatives. The raises will cut earnings per share by about 5 percent this year and by 12 percent in 2011, according to Daiwa Securities in Taipei. Yet all it would take is a 1 percent increase in the price of most finished products—$4 more for a 64-gig iPod touch, for example—to offset the added labor costs. Given the awful spectacle of the suicide epidemic, who's going to complain?

There's a joke among executives whose livelihoods depend on Foxconn: In 20 years, there will be only two companies. Everything will be made by Foxconn and sold by Wal-Mart.

Gou finds the punch line flattering, and unrealistic. "This is just a joke. I'm not saying I am so great. I just work hard and work smart." For more than a decade, Gou has exhorted his executives to achieve 30 percent annual growth, but now that the company has grown so immense, he has dialed that target back for 2011 and beyond to 15 percent. Still, he's not about to ease up—on himself or anyone else. "I never think I am successful," he says. "If I am successful, then I should be retired. If I am not retired, then that means I should still be working hard, keeping the company running."

Foxconn's next evolutionary wave has already begun. It established itself by building city-size factory campuses. Now, Gou wants to pass the burden of employee services on to local Chinese governments. "We came in the early '90s to Shenzhen and built factories and provided dormitories and cafeterias and everything, even laundries." says Gou. "We are not just a factory, we take social responsibility." Now, "I think we need to change the way things are. Businesses should be focused on business and social responsibility should be government responsibility."

Authorities in Chengdu, Sichuan, have already agreed to a deal in which Gou will spend $3.5 billion over five years to build factories for component manufacturing and assembly, while the government will provide low-cost housing to his workers. "We don't want to still be running cafeterias," says Gou.

The move inland will enable Foxconn to pay its workers less and might help prevent suicides, too. If workers are closer to home, reason Foxconn executives, they're more likely to have someone to turn to when problems arise. So Foxconn is building a facility in the city of Zhengzhou, the capital of Henan province, which has a population of more than 100 million. Migrant workers from Henan account for about a fifth of Foxconn's workforce. "We want to go to the source of abundant workers and where there is a support group of family and friends," says Woo.

As Western companies outsource more of their design work, Gou faces stiff competition from specialist notebook makers Compal and Quanta as well as electronics maker Flextronics, which have superior research teams. "Design capability is Hon Hai's weakness," says Wang, the Taipei-based analyst at Gartner. "But they are very aggressive about poaching engineers, and they have very deep pockets."

While Foxconn still exports most of what it produces in China, global brands are looking to sell to increasingly affluent Chinese consumers. That's why Gou hired Woo to help develop the so-called channel business, which will take Foxconn into retail. Woo, who ran the consumer side of Apple in Taiwan in the 1990s, says he plans to have 10,000 retail outlets in China by 2014, many operated by former Foxconn factory employees. In most economies, an individual's journey from the low wages and long hours of the factory floor to the relative comfort of white-collar work can take generations. Thanks in part to Gou, Chinese laborers may make it over the course of a few years.

Gou has plans to capitalize on the changes he has wrought. Perhaps most intriguing is his plan to move additional production to the U.S. The company currently employs about 1,000 workers in a Houston plant that makes specialized high-end servers for corporate clients the company declined to disclose, and Gou envisions a fully automated plant to produce components within five years. "If I can automate in the U.S.A. and ship to China, cost-wise it can still be competitive," he says. "But I worry America has too many lawyers. I don't want to spend time having people sue me every day." B

—With Peter Burrows, Baizhen Chua, Wei Du, Debra Mao, and Aaron Ricadela

THE CHAIRMAN





Bubble boy: Verrone's securitization deals helped inflate the commercial real estate market

The Ballad of "Large Loan" Verrone

By Devin Leonard
Photograph by Michael Edwards

During the boom, Wachovia banker Robert Verrone made money by slicing and dicing billions of dollars in commercial real estate loans. After the crash, he made money by restructuring those loans before they blew up. What has he learned?

Robert Verrone is standing on the roof of an office building in midtown Manhattan. In his hand is a list of commercial properties, almost all of which he financed through securitization, the now-infamous process through which debt is minced and extruded into bonds that can be bought and sold by Wall Street traders. During the real estate boom, Verrone was head of Wachovia Bank's large loan group, and on this August afternoon he has come up to the roof to point out some of his biggest deals.

"I'm not sure where I should start," he says. He walks over to the east side of the building. "How about that one?" Verrone points to a lovely glass tower just across the street—650 Madison Avenue—for which he arranged a $100 million second mortgage two years ago. He gestures through the forest of skyscrapers to a boxy one on Park Avenue. That was his, too. Wachovia wrote the building's $430 million mortgage in 2006.

Verrone, 42, looks and sounds like a thinner James Gandolfini, so when he gets revved up on the roof, it's as if Tony Soprano himself were holding forth, smiling and waving a hand toward the high-end residential district just east of Central Park. "We made deals all through that corridor," he says. "I don't know how many." He gestures toward Central Park South. "We did the land under the Ritz-Carlton." He cranes his neck to look around the corner, down Fifth Avenue, but can't quite manage it. He looks disappointed; he arranged mortgages for 11 buildings on that street alone. And then there are the boutique hotels he did like the Royalton in Times Square, the Wall Street tower he refinanced for Donald Trump, the warehouse in Chelsea where Martha Stewart runs her company, and on and on. "It was a great 14 years," he says later. "I miss it every day."

Specializing in loans of $50 million or more, Verrone helped make Wachovia the No. 1 underwriter of securitized commercial real estate debt between 2002 and 2007, with a total

of $69 billion in loans during these years, according to Trepp, a New York research firm. (Verrone won't say how much he made in those days.) His prodigious run came to an end in May 2008. He resigned just months before Wachovia nearly collapsed and was acquired by Wells Fargo at the fire sale price of $15.1 billion.

Verrone can't be blamed for Wachovia's near-death. The bank was probably doomed at the peak of the housing market in 2006 when it paid $24 billion for Golden West, a prolific subprime mortgage dispenser. Still, his department's losses were substantial. In 2007 and 2008, according to Foresight Analytics, Wachovia wrote off $771 million in bad commercial real estate loans; Bank of America and Citigroup by comparison, wrote off $565.8 million and $457 million, respectively. In terms of total dollar amounts of delinquent securitized loans today, Wachovia leads the parade with $5.81 billion.

By his own admission, Verrone's methods helped inflate the real estate bubble. He says he lent huge sums to developers such as Harry Macklowe and Jerry Speyer—sometimes via interest-only deals with little money down—so they could buy skyscrapers. Then he carved up the debt, bundling the safest pieces into multibillion-dollar pools and selling them on the bond market. The riskier portions he offered to hedge funds hungry for higher returns. For Wachovia, the beauty of these deals was that the debt vanished from its books, but not before the bank slurped up juicy fees.

"Large Loan" Verrone, as he was known, became an outsize figure in the New York real estate world: the blustery guy who quoted *The Godfather* during client meetings and threw parties on the rooftop of the Philippe Starck-designed Hudson Hotel. Verrone insists that the image has been exaggerated, though not by much. "Did I use a *Godfather* quote? I don't know any 42-year-old male that hasn't," he says. "But I never sat at the table quoting *The Godfather* while we were trying to work out a deal. That's ridiculous. Look, I'm just a guy who works really, really hard."

You might think Verrone is just another unsavory character from the boom years, the real estate equivalent of those bugs you see when you turn over a big rock. Don't be so sure. For years, before everything got out of hand, bankers like him provided an important service: They made capital available to developers and spread the risk rather than keeping it on their institution's balance sheets, which had a disastrous effect during the savings and loan crisis of the 1980s. The problem this time was that the Rob Verrones of the world didn't know when to stop providing. They underwrote anything rentable and thought they were immune. It was only a matter of time before the bubble burst and everyone in the business, including Verrone, got splattered.

Now Verrone is back—and this time, he says, he is part of the solution. His job these days is to help the commercial real estate market avoid the second crash predicted by economist Nouriel Roubini, among many others. The same lenders that are foreclosing on cash-strapped owners single-family homes are quietly striking deals with cash-strapped developers, extending loans and restructuring debt so the big borrowers can avoid default.

Why are Verrone's former clients now paying him to salvage the same bad deals he got them into?



Verrone, with President George W. Bush and the First Lady, in 2005

Large Loan is in the thick of these deals. In January 2009, he started a company called Iron Hound Management, which in the past year has negotiated interest reductions, extensions, and payoff discounts on $2 billion worth of loans and is currently wrestling with $4 billion more. In some cases, Verrone has been tapped by his old Wachovia clients to repair the very deals he crafted when he was the bank's big loan guy. "It's unusual," says Robert Ivanhoe, chairman of the global real estate practice at the law firm Greenberg Traurig. "I'm not saying there is anything wrong with it. But it is unusual."

Why would Verrone's former clients pay him to help salvage the same bad deals he got them into? Faced with this question, Verrone responds with something you rarely hear from Wall Street types who got rich during the boom: contrition. "I'm one of the few guys who will admit it," he says, conceding that he made some deals that look dreadful today. "The wind was at our backs. We definitely made mistakes over the years."

As he restructures loans he never should have written in the first place, Verrone says, he's learning some valuable lessons. "We need to keep it simple," he says. "We sold every penny of cash flow to anybody in the world who wanted to buy it. That makes it really tough when things start to go sideways."

He hopes to apply these lessons when the commercial real estate market recovers, as it appears to be doing slowly. According to Trepp, the market for the kind of commercial real estate bonds Verrone used to create hit an all-time high of $251 billion in 2007. Last year only $3.5 billion were issued. The firm expects that this year, however, the amount will triple as lenders such as Wells Fargo and Goldman Sachs get back in the game. In other words, it might not be long before Verrone is back on Wall Street making deals again.

The son of Italian immigrants, Verrone grew up in North Haledon, N.J., a middle-class suburb of New York. He displayed a talent for sales early on, selling Cutco knives to the parents of his soccer teammates at Don Bosco Preparatory High School. His soccer coach, Richard Zawacki, was astonished at his prowess. "I said, 'Robert, what do you know about knives?'" he recalls. "He said, 'Not much.' But by the time he finished talking, I bought two of them. So did my two assistant coaches."

At Moravian College in Bethlehem, Pa., where Verrone majored in business administration, he sold T-shirts emblazed with the slogan, "Do it Doggy Style," in honor of the college football team, the Greyhounds. He also started a student pub called the Doghouse. One of Verrone's soccer buddies had a sister who worked at Bear Stearns; Verrone used the connection to get a summer internship—and decided Wall Street was the place for him. "I liked the pace," he remembers. "I liked the people."

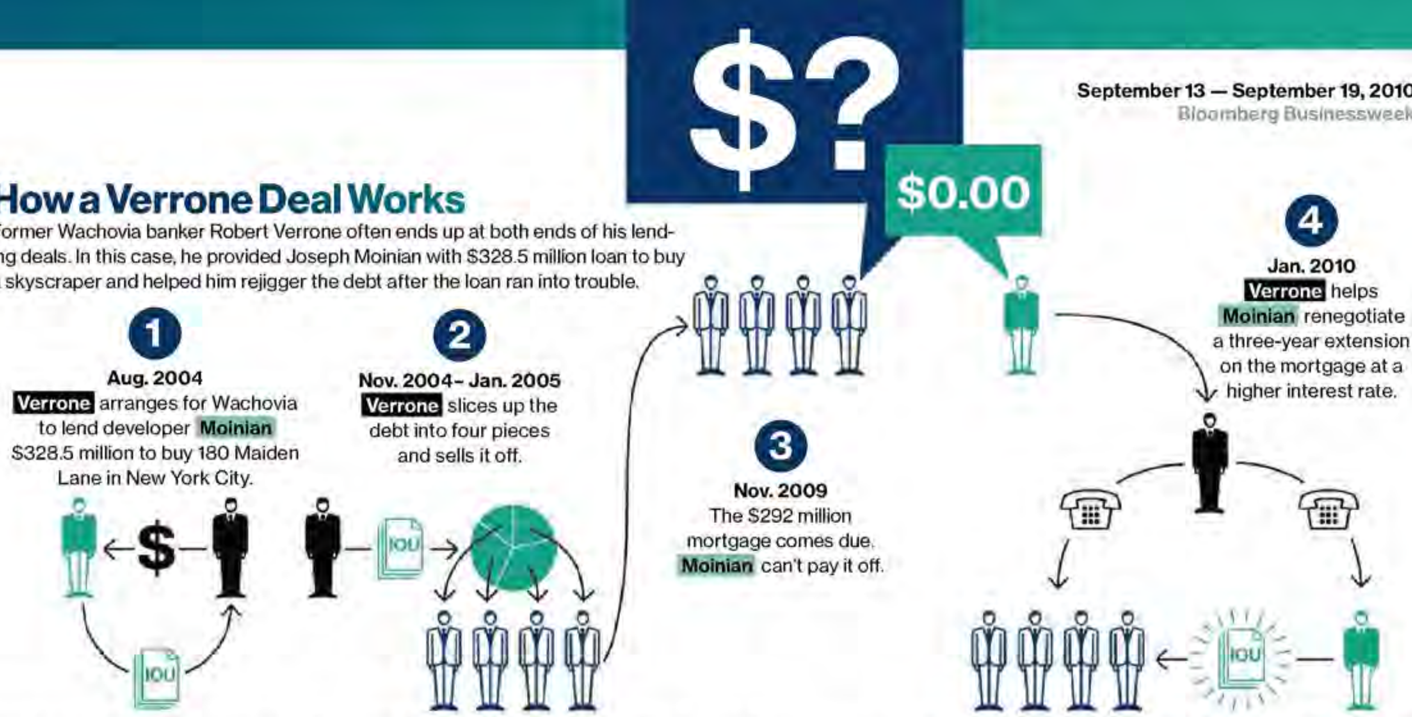
Bear Stearns hired Verrone as soon as he graduated from Moravian in 1990 and assigned him to the mortgage capital department. He worked with a team that bought residential loans from failed banks and securitized them for the federal Resolution Trust Corp., which sold them as bonds to many different investors. Pretty soon, banks like Bear Stearns realized they could do this themselves and turn a tidy profit. First they ran the debt on single-family homes through the securitization machine; then they worked the same magic with bigger loans on office buildings, shopping centers, and apartment buildings.

Verrone was a low-level analyst, but on his lunch hour he would cold-call developers and offer them debt. "It was amaz-

COURTESY MORAVIAN COLLEGE

How a Verrone Deal Works

Former Wachovia banker Robert Verrone often ends up at both ends of his lending deals. In this case, he provided Joseph Moinian with $328.5 million loan to buy a skyscraper and helped him rejigger the debt after the loan ran into trouble.



ing," says Mark Finerman, a former Bear banker who worked with him. "He could just pick up the phone and bring in business. People liked talking to him." It helped that he was offering real estate people the thing they most desired: money.

The more successful Verrone became at Bear Stearns, the more frustrated he grew. He saw his competitors at Donaldson, Lufkin & Jenrette securitizing bigger and bigger loans and pocketing humongous fees. His employer wasn't so bold. "We were very conservative," he recalls. "We spent a lot of time looking at deals and talking about deals, but not closing deals."

Finally, Verrone's bosses showed him the door in 1994. He spent the summer "learning how to mountain bike the streets of New York City," he says, then he ran out of money and moved back in with his parents. That was his cue to get his MBA, so Verrone drove to North Carolina to look at Duke University. While staying with a friend in Charlotte, he had another idea. First Union, the bank headquartered there, had just hired some Wall Street hotshots, including Mike Greco, the former head of DLJ's commercial mortgage shop, to ramp up its lending. Verrone borrowed a jacket and tie from his buddy and went to interview at First Union. He landed a job.

The Jerseyite had reservations about Charlotte. As he tells it, the city had only about five bars at the time. But his sacrifice paid off. Four years later, Greco left to start his own firm and offered jobs to his old team. First Union asked Verrone to stick around, and the 28-year-old ended up in charge of the bank's lending and securitization business. Three years later, First Union merged with Wachovia (and took the latter's name). Now it had an enormous balance sheet. Verrone put it to use.

In 2003 he talked the bank into dispatching him to New York to run its large loan group, handling deals of $50 million or more. Wachovia gave him a corner office in the Seagram Building, and Verrone quickly did his first big deal. On Aug. 30, 2003, *The New York Times* ran a story announcing that Wachovia was backing developer Harry Macklowe's $1.4 billion purchase of the General Motors Building. It was the highest price ever paid for a Manhattan office building.

Just before the deal closed, Macklowe's longtime lender, Deutsche Bank, offered the mogul better terms. Wachovia lost the deal, but Verrone made his point. "We got all the press," he says. "Nobody wrote about the closing." He adds that his employer learned a lesson, too. "It made Wachovia realize that things in New York move faster than they do in Charlotte."

Verrone didn't lose many more deals. He courted developers at fancy restaurants in his own refreshing manner. "He didn't have any trouble sitting at the Four Seasons and talking about how his father was a cutter in a clothing factory," says Chad Johnson, a former Wachovia banker. "It wasn't the same bull___ you heard in business lunches. It was part circus and part business, and it led to a lot of successful transactions."

Wachovia's bashes on the Hudson Hotel's rooftop became popular events. It didn't matter that they weren't always executed flawlessly. "The first time, we threw the party on Rosh Hashanah and we didn't have kosher food," Verrone says. "One year we threw it during the World Series. The Yankees were playing. We didn't have TVs. Everybody was leaving to watch the game." What Verrone's clients remember most fondly aren't his parties or his jokes, but his willingness to show up at the closing table with sizable checks. "He never cut our loans, which some lenders are prolific at," says Jeff Ratzer, vice-president of Executive Capital, a real estate investment firm in Big Rock, Ill. "If Rob said it was $20 million, he didn't come back two months later at the closing and say it was $18 million."

As Wachovia and its rivals threw money at developers, real estate prices soared. That only seemed to whet Verrone's appetite. In 2006 he structured a $5.4 billion deal that allowed Tishman Speyer and BlackRock to acquire Stuyvesant Town-Peter Cooper Village, an 80-acre, 11,232-unit middle-class apartment complex on the East River in lower Manhattan. Tishman and BlackRock saw that 71 percent of the units were rent-controlled. That meant the residents of these units paid an average of about $1,300 a month, while the market rate for comparable rentals in the area was roughly $3,900. The new owners thought they could convert 40 percent of the rent-controlled apartments in seven years and increase the property's annual net operating income from $105 million to $397 million.

The new owners loaded up with so much debt—$2.9 billion from Wachovia, $1.4 billion from Merrill Lynch—that there was no room for error. They didn't expect the property to be cash-flow positive until 2011, according a private placement memorandum. Until then, they planned to cover interest payments—$262 million in the first year alone—from a reserve fund Verrone had arranged.

$5.4
Billion

Size of the deal Verrone structured for New York's Stuyvesant Town

The goal of flipping 40 percent of the units proved unreachable because Stuyvesant Town is no ordinary housing complex. Built in the late 1940s by

DATA: TREPP

Metropolitan Life, it was that rarest of things: an affordable middle-class enclave in Manhattan. Most residents had waited for years to get an apartment there, and after winning this lottery they weren't going anywhere without a fight. Tenants filed a lawsuit accusing Tishman Speyer and BlackRock of illegally raising rents. An appeals court ruled in their favor, effectively dooming the owners' conversion campaign. In January 2010, they defaulted on their mortgage, sending tremors though the bond market.

Verrone says he got the debt off Wachovia's books before the credit markets froze in 2007. He insists that holders of the senior $3 billion mortgage, which had been carved up into six different bonds, will get their money back. Holders of the $1.4 billion mezzanine debt, such as S.L. Green Realty, a real estate investment trust, won't be as lucky. They've been wiped out. "That's one of those investments we would have liked to have taken back," says Andrew Mathias, chief executive of S.L. Green. However, he adds: "We don't blame Robert for that."

As the Stuyvesant Town deal was closing in December 2006, Verrone says, he got a whiff of the coming financial crisis. His bosses were nervous about the state of the bond market, and everything was slowing down. It used to take Wachovia two days to sell a commercial real estate bond. Now it took two weeks. Verrone says he began to worry that it was just a matter of time before the bank was stuck with a heap of toxic waste.

Those worries did not prevent him from closing the $10 billion worth of loans he had in the pipeline, among them the Lightstone Group's $8 billion purchase of Extended Stay Hotels, which Wachovia underwrote with Bear Stearns, Merrill Lynch, and Bank of America. Verrone says he couldn't make much of this debt disappear from his employer's balance sheet. "We lost a lot of money on that," he says of the Extended Stay deal. (Last year the hotel chain filed for bankruptcy.)

Yet Verrone and his team did try to limit the damage by selling off Wachovia's remaining loans at bargain prices. "It was 'First bid, best bid,'" he says. In response, Wachovia was deluged with calls from hedge funds and private equity funds that—as Verrone tells it, at least—thought he had lost his mind. He estimates that his group unloaded $7 billion worth of rapidly souring debt in 2007. "I had lunch with someone the other day," he chuckles. "The guy says, 'I'm still trying to work out that loan you sold me.'"

Verrone insists these efforts saved Wachovia, though even if this claim is true, the bank was still encumbered by Golden West's portfolio. In the end, the only way out was the hastily arranged wedding to Wells Fargo. By then, Verrone was gone. In March 2008, Wachovia consolidated its real estate department under Bob Reid, a conservative 30-year Wachovia veteran. Verrone resigned two months later. "I knew I wasn't going to make it under that guy," he says.

In May 2008, after less than a month of unemployment, Verrone was in Tucson, celebrating his 10th wedding anniversary with his wife at an upscale spa, when his cell phone rang. It was Elias Cababie Daniel, head of Cabi Holdings, a development company that had borrowed $1.5 billion the previous year from Wachovia to buy 59 office buildings in Southern California. Now Cabi was having trouble paying off the debt. The developer was flying from California that night to Mexico. Could he stop in Tucson and see Verrone?

Verrone took a cab to the airport and met with Daniel in one of the hangars. Verrone says the developer pleaded with him to serve as a restructuring consultant on the deal. Ten days later, Verrone took the assignment. "I always try to help my clients," he says. "It wasn't his fault the world fell apart."

Verrone didn't succeed in getting a deal done that would enable his client to keep his buildings. He'd sliced the debt into so many pieces it was impossible to get all the holders to agree on a restructuring plan. "We tried," he says. "But there were 11 different lenders on the deal. Ten agreed. One didn't, so the borrower had to hand back the keys." Cabi Holdings has since filed a lawsuit in California against Wachovia and the other borrowers over the failed deal, claiming breach of goodwill. The developer's lawyer declined comment. Wachovia, in court documents, denies wrongdoing.

It wasn't long before Verrone, who is now divorced, was spending all his time restructuring deals like this. The securitization system that he had helped pioneer had never weathered anything like the financial collapse of 2008. Now it would be severely tested. Wachovia and its competitors had structured their bond offering so that third parties called "special servicers" stepped in when borrowers couldn't pay. Before the crash, it was a pretty easy job. Delinquency rates, after all, were less than 1 percent. Since the real estate bubble burst, delinquencies have soared to 8.5 percent this year, according to Trepp.

Even though the second crash that Roubini and others predicted hasn't come to pass, that doesn't mean there hasn't been chaos in commercial real estate. Special servicers are swamped with busted deals. "No one thought the system would implode," says Norman Radow, founder of Radco Development Solutions, a firm that manages property for banks that have foreclosed on real estate loans. "The special servicers are playing catch-up."

For developers, it was often an ordeal just to get these loan officers on the phone. Verrone found that if he just kept calling and working his connections, he could cut a path through the red tape. Executive Capital's Ratzer says Verrone did exactly that with a $24 million loan from Wachovia to his firm that was coming due this year and tucked away inside an enormous securitization. "We couldn't get anybody to return our calls," Ratzer says. "I said, 'Robert, do you know anybody at Wachovia?' He said, 'A lot of people have changed, but I know the system.'"

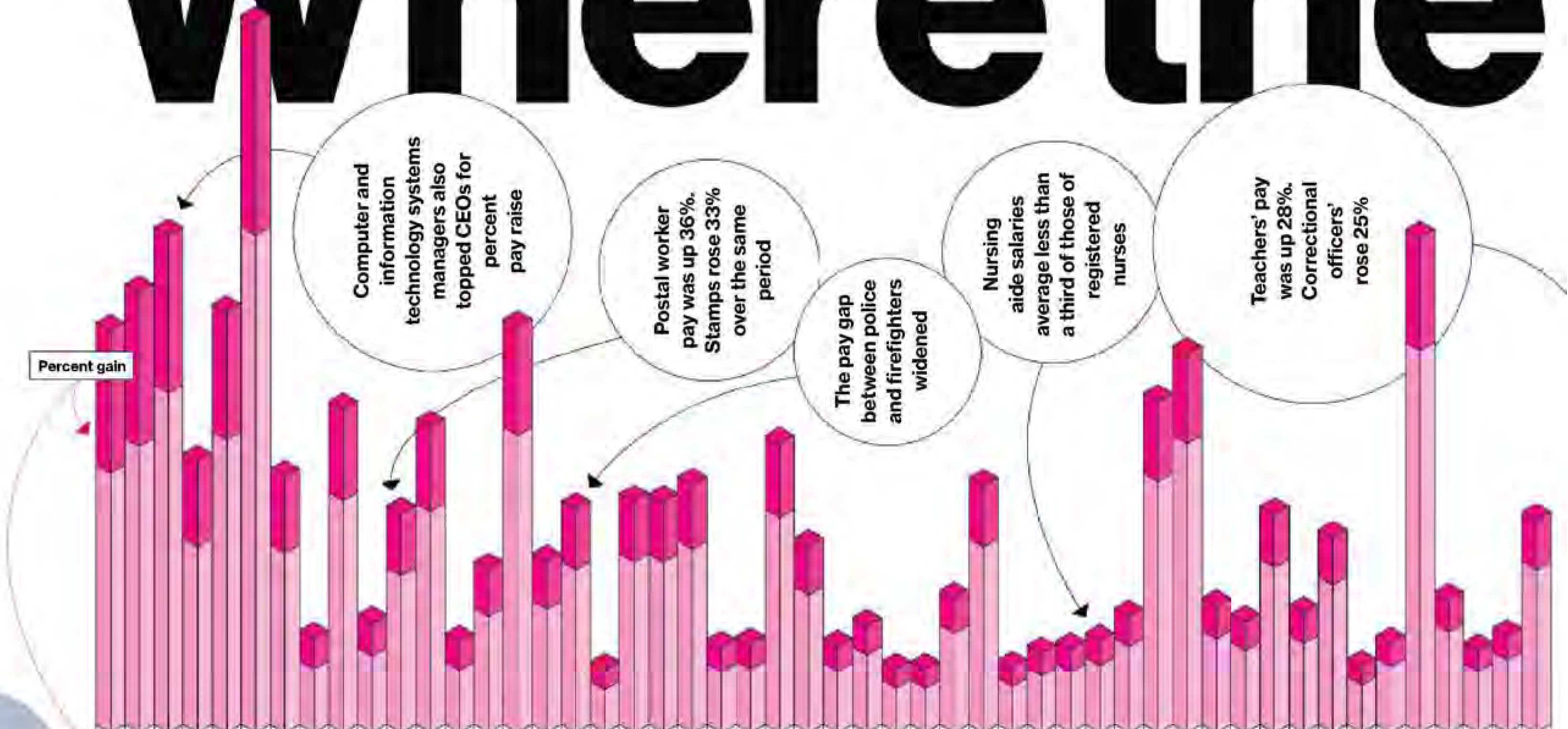
Iron Hound has done similar interventions for Joseph Moinian. The New York developer—one of Verrone's most acquisitive clients during the boom—is now fighting to keep his empire intact. In January, Moinian announced that Verrone had helped him restructure the debt on two of his Manhattan trophies. "Robert understands the loan documents," says the developer. "Robert negotiated the same set of documents a hundred times. He has been a great translator of what the other side expects."

The irony of his situation is not lost on Verrone. "This job is making me a better banker," he says. "We are seeing what happens when things go wrong." He adds: "Anyone who wants to get into this business and thinks it's easy, each loan takes 6 to 18 months to work out. And they are never easy."

Verrone is watching the apparent rebirth of the commercial real estate bond business—and thinking about heading back to Wall Street if things pick up. "We love our little Iron Hound gig," he says. "It's been great. But at some point, maybe we go back to a big shop and rebuild the lending business based on what we've learned." In other words, it may not be long before Verrone is once again throwing parties, quoting *The Godfather,* and disarming clients with tales of his Jersey roots. To show he has been properly chastened, the banker says he may hold his parties on the roof of the Marriott this time around. Then he changes his mind. "I'd rather go to a party at the Hudson," he says. When Large Loan Verrone starts partying on the roof, you'll know the next commercial real state cycle has begun. Ⓑ


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Where the



Job Description	2009 Salary	Percent gain
1. General and operations managers	$92,650	51%
2. Financial managers	$101,190	51%
3. Computer and information systems managers	$113,720	44%
4. Registered nurses	$63,750	42%
5. Sales managers	$96,790	41%
6. Chief executives	$160,720	41%
7. Accountants and auditors	$60,340	39%
8. Preschool teachers, except special education	$24,540	38%
9. Management analysts	$75,250	37%
10. Pharmacy technicians	$28,070	36%
11. Postal service mail carriers	$52,200	36%
12. Sales representatives, wholesale and manufacturing, technical and scientific products	$71,340	36%
13. Security guards	$23,820	36%
14. Licensed practical and licensed vocational nurses	$39,820	35%
15. Computer software engineers, systems software	$93,470	34%
16. Executive secretaries and administrative assistants	$41,650	34%
17. Police and sheriff's patrol officers	$53,210	34%
18. Waiters and waitresses	$17,690	33%
19. Loan officers	$54,880	32%
20. Purchasing agents, except wholesale, retail, and farm products	$54,810	32%
21. First-line supervisors/managers of mechanics, installers, and repairers	$58,610	32%
22. Cooks, institution and cafeteria	$22,620	32%
23. Hairdressers, hairstylists, and cosmetologists	$23,330	32%
24. Network and computer systems administrators	$67,710	32%
25. Fire fighters	$45,050	32%
26. Teacher assistants	$22,820	32%
27. Bus drivers, school	$27,400	31%
28. Cooks, fast food	$17,720	30%
29. Dining room and cafeteria attendants and bartender helpers	$17,700	30%
30. Bookkeeping, accounting, and auditing clerks	$33,450	30%
31. First-line supervisors/managers of construction trades and extraction workers	$58,330	30%
32. Counter attendants, cafeteria, food concession, and coffee shop	$18,180	30%
33. Counter and rental clerks	$21,300	30%
34. Recreation workers	$22,280	30%
35. Nursing aides, orderlies, and attendants	$24,040	30%
36. First-line supervisors/managers of food preparation and serving workers	$29,470	30%
37. Computer systems analysts	$77,080	30%
38. Computer software engineers, applications	$87,480	29%
39. Billing and posting clerks and machine operators	$31,720	29%
40. Shipping, receiving, and traffic clerks	$28,250	29%
41. First-line supervisors/managers of production and operating workers	$52,060	29%
42. Medical secretaries	$30,190	29%
43. First-line supervisors/managers of office and administrative support workers	$46,910	29%
44. Bartenders	$18,350	29%
45. Landscaping and groundskeeping workers	$23,480	28%
46. Lawyers	$113,240	28%
47. Dental assistants	$33,230	28%
48. Janitors and cleaners, except maids and housekeeping cleaners	$21,970	28%
49. Packaging and filling machine operators and tenders	$25,130	28%
50. Middle school teachers, except special and vocational education	$50,770	28%

Money Is

While nurses are not nearly as well paid as chief executives, their salaries are rising faster. That's one of many revealing data points in a Bureau of Labor Statistics study of compensation for the top 100 U.S. job categories, from 2000 to 2009.

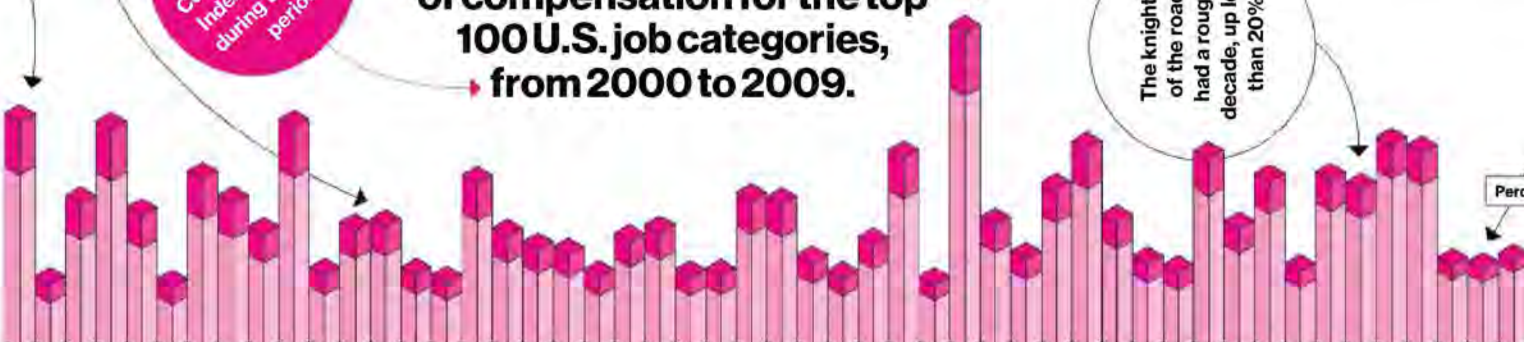
The U.S. Consumer Price Index rose 25% during the same period

It's marginally more remunerative to be a medical secretary than a legal secretary

Computer programmers, while well paid, did not see a rapid ascent

Putting merchandise on the shelves is worth 15% more now than in 2000

The knights of the road had a rough decade, up less than 20%



	Job category	2009 Salary	Percent gain
51.	Secondary school teachers, except special and vocational education	$52,200	28%
52.	Dishwashers	$17,770	28%
53.	Welders, cutters, solderers, and brazers	$34,750	27%
54.	Elementary school teachers, except special education	$50,510	27%
55.	Inspectors, testers, sorters, samplers, and weighers	$32,330	27%
56.	Combined food preparation and serving workers, including fast food	$17,220	27%
57.	Child, family, and school social workers	$39,960	27%
58.	First-line supervisors/managers of retail sales workers	$34,900	27%
59.	Truck drivers, light or delivery services	$28,330	27%
60.	Sales representatives, wholesale and manufacturing, except technical and scientific products	$50,920	26%
61.	Personal and home care aides	$19,680	26%
62.	Construction laborers	$29,150	26%
63.	Secretaries, except legal, medical, and executive	$29,980	26%
64.	Cleaners of vehicles and equipment	$19,690	25%
65.	Hosts and hostesses, restaurant, lounge, and coffee shop	$18,110	25%
66.	Correctional officers and jailers	$39,050	25%
67.	Social and human service assistants	$27,940	25%
68.	Receptionists and information clerks	$25,070	25%
69.	Tellers	$23,980	25%
70.	Maids and housekeeping cleaners	$19,250	25%
71.	Team assemblers	$26,820	25%
72.	Medical assistants	$28,650	25%
73.	Child care workers	$19,240	24%
74.	Packers and packagers, hand	$19,470	24%
75.	Automotive service technicians and mechanics	$35,420	24%
76.	Maintenance and repair workers, general	$34,620	24%
77.	Helpers—production workers	$22,370	24%
78.	Food preparation workers	$19,020	24%
79.	Office clerks, general	$26,140	24%
80.	Industrial machinery mechanics	$44,470	24%
81.	Cashiers	$17,820	23%
82.	Computer programmers	$70,940	23%
83.	Customer service representatives	$30,290	23%
84.	Laborers and freight, stock, and material movers, hand	$23,110	23%
85.	Machinists	$37,650	22%
86.	Plumbers, pipefitters, and steamfitters	$46,320	22%
87.	Bill and account collectors	$30,940	22%
88.	Cooks, restaurant	$22,170	22%
89.	Retail salespersons	$20,260	22%
90.	Computer support specialists	$44,300	22%
91.	Industrial truck and tractor operators	$29,550	21%
92.	Carpenters	$39,470	21%
93.	Home health aides	$20,480	20%
94.	Operating engineers and other construction equipment operators	$39,770	20%
95.	Truck drivers, heavy and tractor-trailer	$37,730	19%
96.	Electricians	$47,180	18%
97.	Insurance sales agents	$45,500	17%
98.	Telemarketers	$21,810	16%
99.	Stock clerks and order fillers	$20,960	15%
100.	Driver/sales workers	$22,740	12%

DATA: BUREAU OF LABOR STATISTICS

E-LEARNING 2010

In a business world where the only constant is change, continuing education is becoming a mandatory course of action. Smart professionals are increasingly turning to the Internet to advance their skills, increase productivity and minimize time away from the office.

For more information regarding the programs listed below, log onto www.businessweek.com/bizlink in the 9/13/10 issue.

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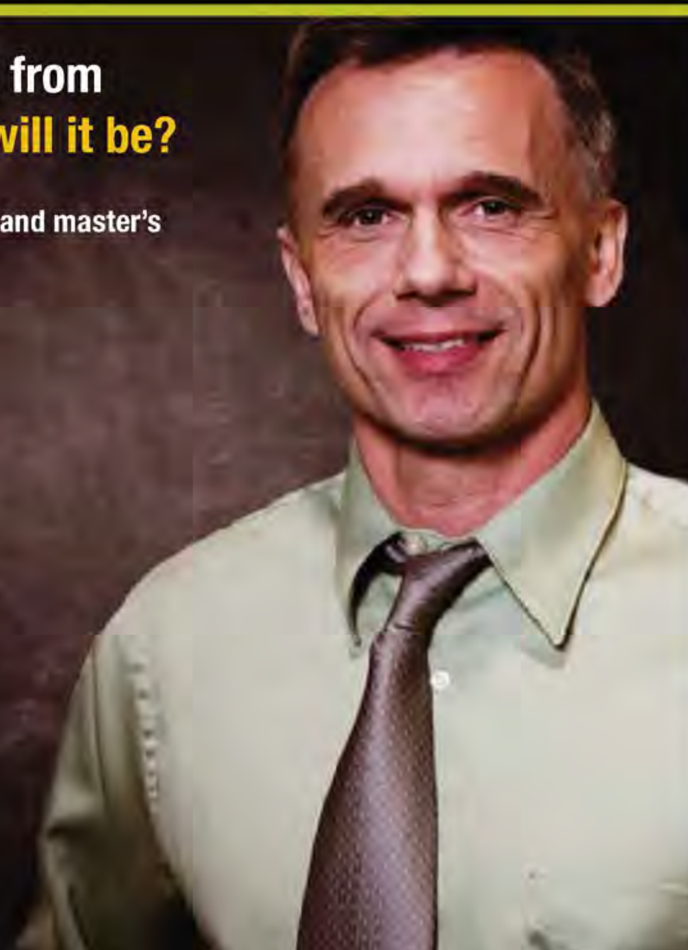
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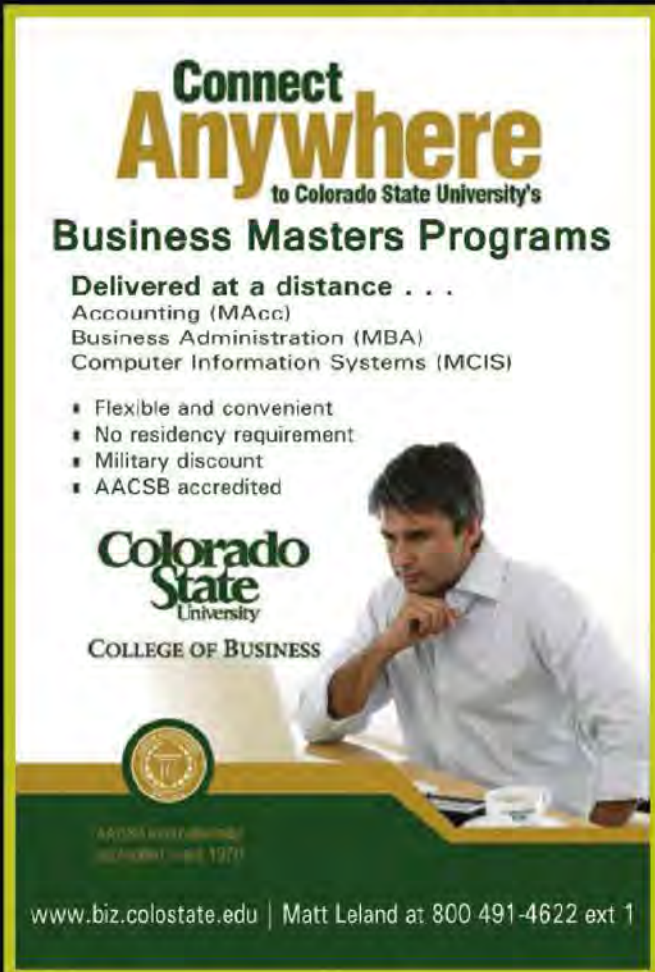
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The best food within 20 minutes of your team's stadium
Page 88



Special 2010 Football Edition

Etc.

The management mumbo jumbo of NFL coaches
Page 93



Any Given Monday

With fantasy leagues increasingly under assault by office managers, some players are going underground. *By Eric Spitznagel*



Photograph by Fredrik Broden

FOOTBALL PLAYER ILLUSTRATIONS BY BEN WEEKS; SANDWICH: WENDY MAEDA/BOSTON GLOBE/LANDOV; PAYTON: DAMIAN STROHMEYER/SPORTS ILLUSTRATED/GETTY IMAGES

Etc. Fantasy Football

Mark St. Amant was at a crossroads. The 36-year-old associate creative director at Keiler & Co., a Farmington (Conn.) ad agency, was finding it difficult to balance his workload with his fantasy football team. So like any ambitious professional with a healthy sense of priorities, he quit his six-figure-salary job for the chance to win a $700 prize pot. "I'd been playing in an office league since the late '90s and never won," says St. Amant. "I came close a few times, but it was an always-a-bridesmaid thing. I realized this job was draining my time and preventing me from winning."

St. Amant is hardly the only Type A fantasy extremist. According to the Fantasy Sports Trade Assn., there are 30 million fantasy players in the U.S. and Canada—an astonishing 54 percent increase from just two years ago. And most of them are already pretty good at their jobs. According to a 2009 study by the University of Mississippi, the annual household income of a fantasy sport consumer is $92,750. In a study conducted by outplacement consulting firm Challenger, Gray & Christmas, half the people surveyed admitted that they spend at least one hour per day thinking about their fantasy football team. In other words, fantasy football has become, for better or worse, the new Internet porn for a generation of upwardly mobile, white-collar professionals.

It may be the inevitable consequence of the age we live in. Dr. Chris Alterio, an occupational therapist and owner of ABC Therapeutics in Amherst, N.Y., says the lines have been blurred between work and play. "Play spaces used to be more rigidly defined by the location of the bowling alley or the softball field," he says. These days, the play space has been reduced to about the size of a cubicle. "In the same way that we're answering e-mails at home," says Alterio, "people are now taking their play into the work environment." That's not all bad. "Workplace tolerance for small distractions is generally helpful for promoting employee satisfaction," Alterio says. "As long as it's held in check."

Last October, Fidelity Investments fired four employees for their involvement in a fantasy football league

The problem is, it's not. Challenger, Gray & Christmas estimates that American companies could be losing as much as $1.5 billion in productivity during an average football season because of fantasy leagues. As a result, a war is escalating between office managers and rank-and-file fantasy junkies. And, like surfing questionable sites from your cube, playing in an office fantasy league can now get you fired. Last October four employees at Fidelity Investments in Westlake, Tex., were let go for alleged participation in a fantasy football league, which was deemed a violation of the company's anti-gambling policy. Among the accused was 26-year-old Cameron Pettigrew, who had worked as an account representative at Fidelity for almost three years. He was taken into a conference room and interrogated about his fantasy football activities for, by Pettigrew's estimate, 90 minutes.

"It seemed so over the top," Pettigrew remembers. "They were really intent on getting me to name names." Shortly after the incident, a Fidelity spokesman confirmed to *The Fort Worth Star-Telegram* that the company has "clear policies that relate to gambling. Participation in any form of gambling through the use of Fidelity time or equipment or any other company resource is prohibited."

Pettigrew didn't rat out his colleagues, but he admits that he knew of several leagues in the office, including some in which "people were betting hundreds and thousands of dollars." In Pettigrew's league, however, "we only had a $20 buy-in." Sadly, he was also the commissioner.

Fantasy Football for Dummies—or Novices

Hey, rookie: Thinking of joining your office's fantasy football league for the first time? Herewith, four priceless tips from fantasy's Dr. Phils: Espn.com fantasy guru Matthew Berry and fantasyfootballstarters.com analyst Russ Bliss.



1. Easy on the Quarterbacks

Many inexperienced team owners think quarterbacks are key. However, "you need only one or, at most, two quarterbacks," Berry says. "You want multiple running backs and wide receivers." This year, draft an elite wideout somewhere "in the first three rounds."

2. Read The Rules

Berry claims one of the biggest mistakes made by fantasy newbies is that they "don't know whether they get a point for a reception, or if they play two running backs or three, or how they get free agents. There are so many permutations, and it really does affect strategy."

3. Sabotage Your Co-Workers

Since most team owners rely on similar information, Bliss recommends rearranging the player rankings and then "accidentally" leaving a few dozen ranking sheets around the office. It's one way to convince a colleague that this may be Jason Campbell's year.

4. Don't Be Conspicuous

The right amount of time to play at the office? "One minute less than what will get you fired," Berry claims. And don't forget the first rule about playing fantasy football with your boss: Always let your boss win. "It's easier to find another league than another job."

ILLUSTRATION BY ANDREW JOYNER

Rather than disappearing from the workplace, football fantasy leagues are going underground. Kevin Alansky, a 38-year-old former telecommunications marketing director, compares today's fantasy football leagues to *Fight Club*, the 1999 movie—based on a novel by Chuck Palahniuk—about a secret cult where guys meet in basements and beat the hell out of each other. "It's become like a secret fraternity," Alansky says. "You can talk about it, but don't talk about it publicly. It's not perceived as professional. If you want to move up the corporate ladder, your fantasy football allegiances have to become more hush-hush."

Alansky was once told by a senior executive at his company that any involvement in an office league could damage his reputation. "He actually asked me to stop playing," Alansky says. "I didn't, but whenever I talk about it now, I'm always looking over my shoulder to see who's listening."

Not all league members are living in the shadows. Shergul Arshad, 40, a director of business development at Cambridge (Mass.)-based shopping website StyleFeeder.com, has been playing in office fantasy leagues since the early '90s. A self-described "early pioneer," his only problem with today's fantasy football is that the Internet has made the sport too accessible. "Before the Internet, you had to compile player stats manually," he says. "I once called the Detroit Lions' front office to find out if Herman Moore was injured and would be playing that weekend. But now, with all the online tools, it's almost like my 7-year-old and 9-year-old could draft a team and be competitive."

He compares fantasy football's current popularity with fair-weather fans of the Boston Red Sox who wear pink hats to games. "Sox fans are turned off by these bandwagoners who come in and buy their pink hats and pretend that they know what they're talking about," he says. "I feel the same way about fantasy football. There are so many people who suddenly got interested, and they're just poseurs."

This is not reassuring news for managers, who fear that even insincere interest in fantasy sports could be a drain on productivity. However, some workers cite specific evidence that fantasy football actually makes them work harder. Kyle Kadane, an information technology manager who once worked for a telecommunications company in Overland Park, Kan., says that his former co-workers involved in fantasy football were sometimes the first ones to arrive at work in the morning. "One week there were a lot of injuries in the NFL, and a few players had some really monster games," he says. "So the next morning, there were two dozen guys in the office at around 6:45 a.m. making new drafts for their fantasy teams." The result, he says, was that they got an earlier jump on the day. "We actually got more real work done than if we'd waited to come in at the designated time."

Dustin Ashby, the commissioner of the World Championship of Fantasy Football—a high-stakes league with a $300,000 grand prize—thinks the positive attributes of fantasy sports are underestimated. "It's a healthy game," he says. "It bridges the gap between top-level executives and mailroom clerks. And that creates social dialogue and breaks down barriers of communication. It really does create a community in the workplace."



PHOTOGRAPH BY FREDRIK BRODEN FOR BLOOMBERG BUSINESSWEEK

"I once called the Detroit Lions' front office to find out if Herman Moore was injured," says a player

There is something special about an office-based fantasy football community. St. Amant learned that lesson firsthand. After quitting his job to focus on fantasy football didn't pan out (his teams still didn't win), he used his newfound free time to think and strategize about ... fantasy football. He even wrote several books on the subject and became a frequent guest on ESPN, where he sometimes debated with fellow fantasy enthusiast Meat Loaf. It wasn't until years later, when he'd returned to advertising full-time, that he won his first fantasy league trophy. "I guess that's kind of ironic," St. Amant admits. Or maybe it's just proof that fantasy football, like anything in life, is more fun when you're being paid to do something else. B



The College Weekend

Plan a getaway around the big game, and see what the tailgaters are missing. *By Alex Pasquariello*



The Smoky Mountains begin to show their fall colors just as the Florida Gators come to town

Hiking in the Smoky Mountains

Where: ***Knoxville, Tenn.***

THE GAME: Tennessee vs. Florida; Sept. 18. The post-Kiffin Vols meet the post-Tebow Gators in each team's conference opener. **THE TOWN:** Knoxville is an ideal jumping-off point for camping in **Great Smoky Mountains National Park**, where 100-plus species of deciduous trees erupt in colors in mid-September. Market Square, downtown's rejuvenated core, is your base. Stay at the **St. Oliver** (407 Union Ave.; $89/night), which offers a breakfast buffet on football weekends. Stock up at the Square's Saturday farmers' market and **The Tomato Head** (12 Market Sq.), where the Benton's Bacon on the Oh Boy ($7.50) sandwich will keep you moving.

The Literary Retreat

Where: ***Iowa City, Iowa***

THE GAME: Iowa vs. Wisconsin; Oct. 23. UW's running game will battle a defense led by DE Adrian Clayborn. **THE TOWN:** Dubbed the world's third City of Literature by UNESCO—on account of the university's Writer's Workshop—the Iowa Avenue Literary Walk celebrates 49 writers with state ties. Rest your feet at **Prairie Lights** bookstore (15 South Dubuque St.), which occupies a café once frequented by ee cummings, before hitting the library at the **Brown Street Inn** (below, 430 Brown St.; $85/night). Drop your book for dinner at **Devotay** (117 North Linn St.), where beef dishes change daily.



Drinking up Willamette Valley

Where: ***Eugene, Ore.***

THE GAME: Oregon vs. Stanford; Oct. 2. The Ducks hope to avenge their lone 2009 Pac 10 loss. **THE TOWN:** In the Willamette Valley, **Oakshire Brewing** (1055 Madera St.) opens its tasting room on Saturdays. Or join them at **Furrer Farms** (82467 Howe Lane, Creswell) the night before the game for a dinner pairing beer with roasted pig ($65). After the game, hit **King Estate Winery** (80854 Territorial Rd.) for its 2008 Signature Pinot Gris ($23/bottle) and smoked oysters ($12). Stumble home to elegant **Augusta House**—you'll get a portable GPS device at check-in (2585 Bowmont Dr.; $219/night).





Stock up on the 2008 Signature Pinot Gris at the King Estate Winery

MOUNTAINS: DENNIE CODY/GETTY IMAGES; BIKE: STOCKBYTE/GETTY IMAGES; RIVER: MACDUFF EVERTON/CORBIS; OXFORD: BUDDY MAYS/ CORBIS; ELVIS: SUNSET BOULEVARD/CORBIS; GUITAR: DORLING KINDERSLEY/GETTY IMAGES; GRAND EASTONIAN: JAY GREENE PHOTOGRAPHY



Before the Broncos game, cycle the 25 miles of paved trails around the Boise River

Bike the Desert Foothills

Where: ***Boise, Idaho***



THE GAME: Boise State vs. Oregon State; Sept. 25. BSU must stave off this potential spoiler to have a shot at a national title. **THE TOWN: Idaho Mountain Touring** (1310 W. Main St.) sets you up with a bike and route ($35 for 4 hours). Choose between 25 miles of paved trails along the Boise River or ride single-track over high-desert foothills in **Camel's Back Park's** 65-acre preserve. Tap the town's thriving Basque community by eating beef tongue ($7.25) at **Bar Gernika** (202 S. Capitol Blvd.) after the game. Rest up at **Idaho Heritage Inn** (109 W. Idaho St.; $80/night), steps from **Julia Davis Park**.





Rock 'n' Roll Pilgrimage

Where: ***Lehigh Valley, Pa.***

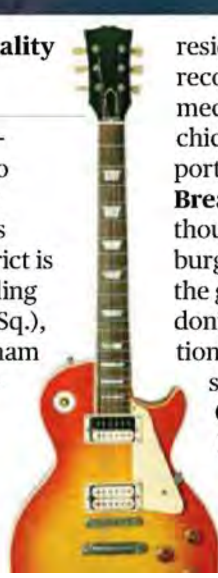
THE GAME: Lafayette vs. Lehigh; Nov. 20. College football's most played rivalry has 146 years of bad liberal arts blood. **THE TOWN: Martin's Guitar Factory** in nearby Nazareth (510 Sycamore St.) offers free tours explaining the 300-plus steps that go into making each model. After viewing axes played by Cash, Dylan, and Elvis, pluck the limited editions in their Pickin' Parlor. Then head to **The Guitarmaker's Connection** (10 W. North St., Nazareth) for the parts to make your own. When the jamming's done, stay at the **Grand Eastonian** on the Delaware River (140 Northampton St., Easton; $129/night). Ⓑ





Seeking Southern Hospitality

Where: ***Oxford, Miss.***



THE GAME: Ole Miss vs. Mississippi State; Nov. 27. Ole Miss seeks to avenge last year's 41-27 drubbing in Starkville. **THE TOWN:** Oxford's Courthouse Square Historic District is lined with Victorian gems, including **Square Books** (160 Courthouse Sq.), where Pat Conroy and John Grisham are known to pop in. The university town is filled with charms—including William Faulkner's residence and B.B. King's complete recordings—and it's now a food mecca. The Coca-Cola-brined fried chicken ($10.50) is the most important meal of the day at **Big Bad Breakfast** (719 N. Lamar Blvd.), though the Burgsalom, Burgsalom! burger ($9) will fill you up before the game too. Come early, they don't take reservations. Hotel options are limited, but you'll sleep soundly at the **Downtown Oxford Inn** (400 N. Lamar Blvd.; $129/night).



Briefing His Clients To Play on Sunday

Roberts, who was a safety on his high school team, works from about 5 a.m. to midnight. "It's pretty much full throttle," he says



Daron Roberts chose a job as an NFL coach instead of a legal career. *By Alexandra Wolfe*

It wasn't a tragic mistake that led Daron Roberts to list "volunteer football coach" on his résumé above two Harvard degrees and a stint on Capitol Hill. After graduating from the University of Texas in 2001, Roberts worked for Senator Joseph Lieberman (I-Conn.) before leaving for the Harvard Kennedy School a year later. Roberts, however, wasn't convinced he wanted a career in public policy. "To be honest," the 31-year-old says, "I was looking for a way to run out the clock."

After Kennedy, it was on to Harvard Law and internships at two Houston-based law firms after his second year. That same summer he accepted an offer to volunteer at a high school football camp. "It showed me how powerful and cool football can be," he says. "I noticed kids from different social backgrounds who normally wouldn't be inclined to talk to each other becoming instant friends." After the summer ended he turned down two law firm offers and sent out 164 letters–to every head coach and defensive coach in the National Football League and 50 top college teams–asking to volunteer.

Roberts got one positive response. "I don't know why you want to do this," said Herman Edwards, then head coach of the Kansas City Chiefs, but he hired Roberts as a summer training camp intern. At the end of the season, Roberts asked to volunteer for the fall, and he was hired as defensive quality control coach, the NFL equivalent of working in the mailroom.

When Roberts first walked into the office of Gunther Cunningham, the Chiefs' defensive coordinator, Cunningham says he told him: "'Get the hell out.' And he looked at me and said, 'I'm not leaving.'" In January 2009, Roberts followed Cunningham to the Detroit Lions, where he's helping rebuild the franchise as an assistant secondary coach. That means rising at 5 a.m. to study opponents, meeting with players from 9 to 10, going to practice from 11 to 1:30, and watching game film for hours after that. The workday ends between 11 p.m. and midnight.

Roberts hopes to lead a college program one day. In the meantime he's found a bridge between his old and new lives: "We both have clients, and ours are our players. Our job is to put them in the best position to win." Ⓑ

The Detroit Lions are looking to rebuild behind QB Matthew Stafford



DITCHING PINSTRIPES FOR PIGSKIN

100+
Hours Roberts works per week as an assistant secondary coach for the Lions

50%
Estimated salary decrease in choosing a coaching job vs. one at a white-shoe law firm

164
Number of résumés sent to NFL coaches for an internship. Roberts received one offer

55
Hours per week that Roberts studies practice and game film to prepare his players

DATA: DARON ROBERTS

TOP: PHOTOGRAPH BY GREG RUFFING FOR BLOOMBERG BUSINESSWEEK

Etc. One True Thing

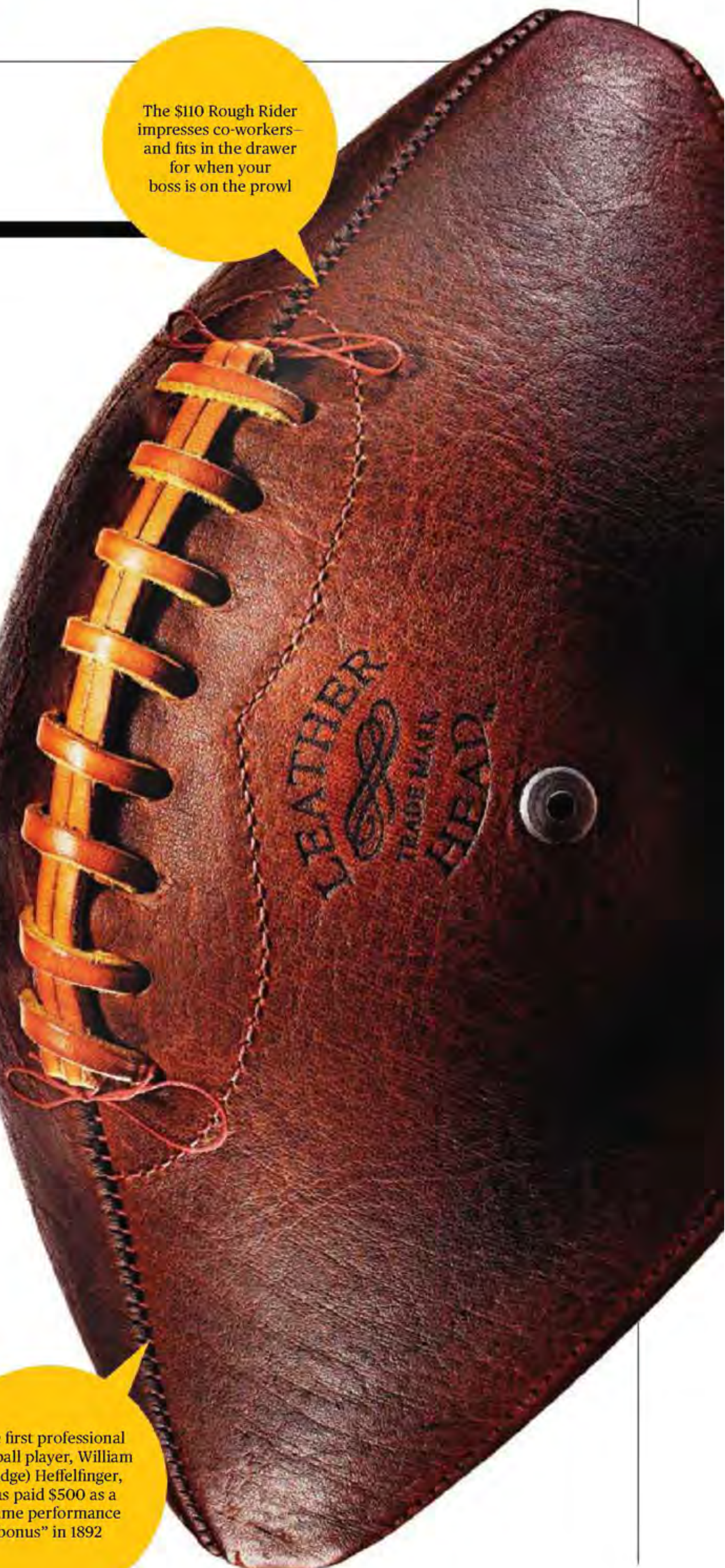
The Office Ball

A pigskin brawny enough for a game, small enough to tuck away

The Want: A ball to keep in the desk drawer for that after-work game of touch or to toss around when the boss isn't looking. It can't look like a child's toy but must be small enough that an errant throw won't put the copier out of commission.

The Get: Channeling Knute Rockne, the Leather Head Rough Rider ($110 at leatherheadsports.com) is handmade from selected hides—each ball is slightly different—with leather that, over time, develops a nice patina and supple feel. About the size of a youth league ball, it'll grant you the illusion of having an arm like a young Brett Favre.

—Stephen Treffinger



FOR THE AERON CHAIR QUARTERBACK

Four other balls you might want to keep around the office this season:



The Classic

The Duke ($99.99 from paragonsports.com)—named after the late New York Giants owner Wellington "Duke" Mara—is a commemorative edition of the official Wilson ball used in NFL games. The deep-pebbled leather is perfectly grippable.



The Medicine Ball

A little extra heft (about 6 oz. more than a typical ball) makes the handmade, genuine chrome-tanned Lineaus Football Medicine Ball ($275 at lineausathletic.com) great for keeping your arm in shape during the off-season. Or resting your elbow on at work.



The Game Ball

Rawlings' ST5 Pro Preferred youth ball ($69.99 at rawlingsgear.com) has a durable, sticky, and water-repellent skin that's perfect for when the casual office toss escalates into an after-work parking lot grudge match.



Safety First

Its flashy pleather isn't for every office, but the cushioned Franklin Sports Junior Air Tech Laser Football ($14.99 at paragonsports.com) can be hurled at full speed without harming any hardware or, for that matter, colleagues.

PHOTOGRAPHS BY JAMIE CHUNG FOR BLOOMBERG BUSINESSWEEK

Etc. Food



Don't Punt on Your Pre-Game Meal

Forgo the dirty dogs and watered-down suds for these restaurants within 20 minutes of your home team's stadium. *By Geraldine Campbell*

Stadium food has improved, yet no one's ever going to mistake a food-court burger with dim sum from a Michelin-starred chef. (Especially when the prices are eerily similar.) Next time you're heading to the stadium, consider a pre-game meal at these detours. They're worth the time—and you won't have to stop for Pepto-Bismol on the way home.



Arizona Cardinals

Restaurant: **Barrio Café**
2814 N. 16th St.

Distance: 15.6 mi. from University of Phoenix Stadium

This bustling, no-reservations neighborhood joint serves great traditional Mexican food, such as Oaxacan chicken with mole negro ($19) and poblanos stuffed with shrimp ($21). Get a Milagro tequila Bloody Mary ($13) with your huevos rancheros ($10), and save room for the churros filled with gooey caramelized goat's milk ($11).



Atlanta Falcons

Restaurant: **Holeman & Finch Public House**
2277 Peachtree Rd.

Distance: 5.4 mi. from the Georgia Dome

James Beard award-winner Linton Hopkins' latest restaurant features communal tables and a meat-centric menu. If you're not up for a brunch of souse (also known as head cheese) or glazed-lamb sweetbreads, the double-patty "Down Low Cheeseburger" ($11) is worth the trip. Wash it down with the Cloak and Swagger ($10), a lethal combination of gin, ginger liqueur, bitters, and lemon.



Baltimore Ravens

Restaurant: **B&O American Brasserie**
2 North Charles St.

Distance: 1.8 mi. from M&T Bank Stadium

Opt for the flatbreads—Neapolitan-style pizzas, really—with topping combinations such as asparagus, ricotta, and fried egg ($9). (The sweet potato gnocchi with lobster, $22, isn't bad either.) Located in the former headquarters of Baltimore & Ohio Railroad, the restaurant pays tribute to its history with details from old dining and railway cars.





Buffalo Bills

Restaurant: **Schwabl's**
780 Center Rd., West Seneca

Distance: 7.3 mi. from Ralph Wilson Stadium

Buffalo wings are a West New York staple, but so is Beef-on-Weck: slow-roasted sliced beef on a crusty salt and caraway seed kummelweck roll, dipped in *jus* and served with horseradish. Nobody does Beef-on-Weck ($11.25) like Schwabl's. When it's cold—and it will be—wash one down with a Tom & Jerry ($6.25), a hot rum and brandy cocktail.



Carolina Panthers

Restaurant: **Customshop**
1601 Elizabeth Ave.

Distance: 2.1 mi. from Bank of America Stadium

David Pasternack, of New York City's Esca, consulted on this seafood-centric Italian restaurant. Before the game, try the short rib and sweet potato hash with poached eggs, kale, and hollandaise ($13). And since it's the South, order a side of creamy grits ($3.50).



Chicago Bears

Restaurant: **The Publican**
837 W. Fulton Mkt.

Distance: 3 1 mi. from Soldier Field

Start things off with a Bloody Mary-and-craft-beer chaser combo ($7-$8), and go with whatever pork sandwich is on the menu. With luck, it will be the mortadella and fried-egg sandwich ($14) paired curiously, and fantastically, with peaches and Dijon mayonnaise. It goes great with maple syrup-braised bacon ($5).



Cincinnati Bengals

Restaurant: **Tucker's**
1637 Vine St.

Distance: 1.3 mi. from Paul Brown Stadium

Tucker's isn't much to look at, but the family-run establishment turns out excellent diner standards, such as Carla Tucker's chicken salad ($5), with meat

OCHOCINCO: EVAN PINKUS/AP PHOTO; BLOODY MARY: DENNIS GOTTLIEB/GETTY IMAGES



and produce from nearby Findlay Market. Get there early; after noon, the kitchen starts to run out.



Cleveland Browns

Restaurant:
Fire
13220 Shaker Sq.

Location: 6.7 mi. from Cleveland Browns Stadium

Doug Katz is known as the Alice Waters of Cleveland for locavore tendencies such as tapping his own maple syrup, pickling his cucumbers, and curing salmon. On game day, try his braised beef tacos with black bean stew, cilantro cream, and mole sauce ($13) or lemon soufflé pancakes ($11).



Dallas Cowboys

Restaurant:
Love Shack
110 E. Exchange Ave., Ft. Worth

Distance: 19.8 mi. from Cowboys Stadium

Topped with American cheese, wild boar bacon, fried quail egg, and Chef Tim Love's special sauce, the Dirty Love Burger ($6.24) is part chuck, part sirloin, and better than any stadium burger.



Denver Broncos

Restaurant:
Bistro Vendôme
1420 Larimer St.

Distance: 2 mi. from Invesco Field

Start off with a "Tall Napoléon" ($9.50)—a layered concoction of Benedictine and brandy, chartreuse, and cognac. For a savory dish, try the croque madame ($10), an open-faced grilled-cheese sandwich with ham, béchamel, fried egg, and served with fries; alternatively, the almond-crusted French toast topped with brûléed bananas will satisfy any sweet tooth ($9.50).



Detroit Lions

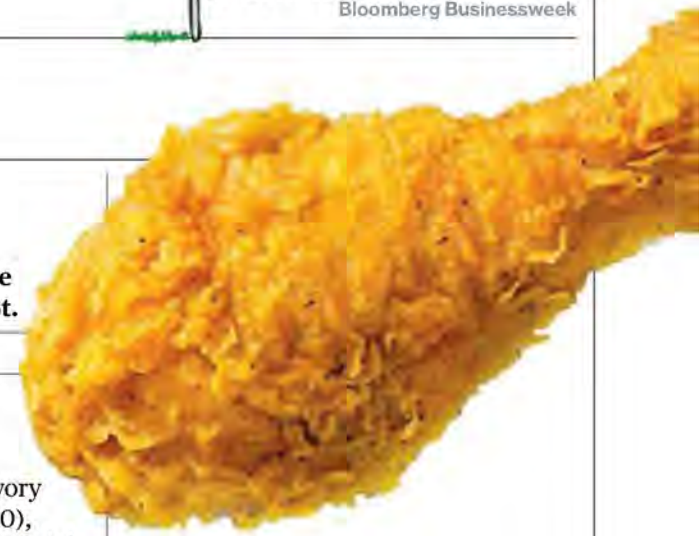
Restaurant:
Slows Bar BQ
2138 Michigan Ave.

Distance: 1.9 mi. from Ford Field

The name is a nod to the slow food movement and the lengthy meat-cooking process, while the industrial décor places this five-year-old hangout firmly in the 21st century. Pair the Reason ($7.95), a pulled-pork sandwich with coleslaw and dill pickles, with a local lager by Atwater Block Brewing ($5).

The brown stuff is in abundance at Philadelphia's Village Whiskey







Green Bay Packers

Restaurant:
Kavarna Vegetarian Coffeehouse
143 N. Broadway St.

Distance: 2.9 mi. from Lambeau Field

The hot marinated artichoke wrap with black olives, provolone, tomato, and cream cheese ($7.45) is the best seller at this vegetarian spot. If meat is a must, Kavarna's owners recently opened Parisi's Deli in the same building. It boasts a spicy Italian sub piled high with mortadella, hot capicola, sopressata, and pistachios ($8.45).



Houston Texans

Restaurant:
RDG + Bar Annie
1800 Post Oak Blvd.

Distance: 9 mi. from Reliant Park

A multiconcept restaurant with three different spaces and two sets of menus can be overwhelming. Order the "canned" fresh smoked oysters in a spicy lime-spiked cocktail sauce ($16) to go with your grapefruit margarita ($12).



Indianapolis Colts

Restaurant:
Hollyhock Hill
8110 North College Ave.

Distance: 10.4 mi. from Lucas Oil Stadium

Family-style meals at this 1928 institution begin with pickled beets, relish, cottage cheese, and iceberg lettuce, and end with ice-cream sundaes. The famous fried chicken ($18.95) comes with huge servings of mashed potatoes, green beans, corn, and buttermilk biscuits.

CHICKEN: DOUGLAS JOHNS/GETTY IMAGES; VILLAGE WHISKEY: FANNY ALLIE

Etc. Food





Jacksonville Jaguars

Restaurant:
Biscottis
3556 St. Johns Ave.

Distance: 5.1 mi. from Alltel Stadium

Known for desserts—particularly its coconut layer cake and upside-down pecan rum pound cake ($8 a slice)—this coffee house also makes a killer prosciutto and arugula frittata ($8.50).



Kansas City Chiefs

Restaurant:
Po's Dumpling Bar
1715 W. 39th St.

Distance: 7.1 mi. from Arrowhead Stadium

Head right for the authentic Taiwanese fare: Long, crepe-like emperor dumplings ($5.95) stuffed with pork and vegetables and cold sesame noodles made from a pasta machine ($8.95).



Miami Dolphins

Restaurant:
Hakkasan
4441 Collins Ave.

Distance: 16.9 mi. from Sun Life Stadium

The restored Fontainebleau has Miami's best Chinese restaurant, Hakkasan, a Michelin-starred London export. The menu's real stars are perfectly crisped sausage-studded turnip cakes ($6), siew long bun ($6), and barbecued roast duck ($18). Finish with a Chinese Mule, a sake-spiked twist on the classic ($14).





Grab a mortadella, fried egg, and peach sandwich before da Bears game this fall



Minnesota Vikings

Restaurant:
Hell's Kitchen
80 S. 9th St.

Distance: 1.2 mi. from Mall of America Field

Don't be deterred by the red-and-black décor or the vulture mascot. The food here is serious. Kick off with Chef Omer Mahnomin's porridge ($3.75)—a hot, wild-rice pudding topped with berries, nuts, maple syrup and heavy cream—before devouring the Walleye BLT, a parmesan-crusted walleye filet with lemon-scallion tartar sauce ($14.95).



New England Patriots

Restaurant:
Alta Strada
92 Central St., Wellesley

Distance: 20 mi. from Gillette Stadium

Chef Michael Schlow cooks top-notch Italian on Wellesley's main drag. Start with antipasti—homemade ricotta with sage and olive oil; garlic and red pepper-flecked broccolini; and eggplant capionata (three for $15)—and save room for the breakfast pizza with egg and pancetta ($13) or mushroom lune with truffle cream sauce ($22).



New Orleans Saints

Restaurant:
Cochon Butcher
930 Tchoupitoulas

Distance: 1.5 mi. from Louisiana Superdome

Donald Link's butcher shop is a meat counter-*cum*-wine bar with ready-to-grill items and pork-centric sandwiches—such as pork belly with cucumber and mint ($10) or the buckboard bacon melt with Swiss cheese and collard greens ($9). Burn it off on the walk to the Superdome.



New York Giants and New York Jets

Restaurant:
Laico's 67 Terhune Ave., Jersey City

Distance: 10.5 mi. from New Meadowlands Stadium

Sure, new Meadowlands Stadium has revamped its food offerings. For authentic Jersey red sauce, though, head to this 60-seat joint, which has been serving monster portions since 1971. Giants fans should order the hearty veal cutlet francese ($18.95), while die-hard Jets fans might try spicy shrimp fra diavolo ($18.95).

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Oakland Raiders
Restaurant:
Bellanico
4238 Park Blvd.

Distance: 5.2 mi. from Oakland-Alameda Coliseum

Skip the infamous colossal dog in favor of homemade pastas, such as the bacon- and jalapeno-spiked tagliolini pepati ($13). On Sundays, the menu also includes Italian-inspired brunch fare, like the bomboloni ($7) with sage custard.



Philadelphia Eagles
Restaurant:
Village Whiskey
118 S. 20th St.

Distance: 4.6 mi. from Lincoln Financial Field

There are more than 130 whiskeys on the menu, as well as cocktails divided into Prohibition and Repeal. Soak it up with the Whiskey King burger, loaded with foie gras, bacon, and blue cheese ($26), and duck-fat fries with cheddar ($7).



Pittsburgh Steelers
Restaurant:
Dozen Bake Shop
3511 Butler St.

Distance: 6.4 mi. from Heinz Field

The local chain recently added to its repertoire brunch items like bacon and asiago quiche ($7) and cream-cheese stuffed French toast ($8.50).

A Chinese Mule at Hakkasan will get you ready for the Dolphins game





San Diego Chargers
Restaurant:
Saffron
3731-B & 3737 India St.

Distance: 6 mi. from Qualcomm Stadium

The 65-seat restaurant offers curries, noodles, soups, and sates, but traditionalists should order chicken with peanut sauce and red rice. The chicken marinates overnight in almond milk, garlic, ginger, and lemongrass chilis before being roasted on a spit for two hours ($8.50).



San Francisco 49ers
Restaurant:
Bar Tartine
561 Valencia St.

Distance: 6 mi. from Candlestick Park

For brunch, the focus is on hearty, delicious sandwiches such as the foie gras-and-red wine jam panini ($16) and bacon and egg croissant with sweet herbs and greens ($12).



Seattle Seahawks
Restaurant:
Cafe Flora
2901 E. Madison St.

Location: 3 mi. from Qwest Field

Opened in an old laundromat nearly 20 years ago, Cafe Flora has been turning out inventive vegetarian dishes such as black-eyed pea fritters with a chipotle aioli, collard greens, and grits ($10.50) and a mushroom, chèvre, and egg-stuffed pastry with red wine sauce ($12).



St. Louis Rams
Restaurant:
Brasserie by Niche
4580 Laclede Ave.

Distance: 4.7 mi. from Edward Jones Dome

Gerard Craft's third and most recent installment in St. Louis' Central West End is a traditional brasserie. Stick to the French onion soup ($6)–thick and rich but not sweet–and roast chicken with hen-of-the-woods mushrooms ($18).



Tampa Bay Buccaneers
Restaurant:
BT
1633 West Snow Ave.

Distance: 3.2 mi from Raymond James Stadium

At this French-Vietnamese bistro, try mussels in a lemongrass and basil white-wine broth ($10); duck dumplings ($8.50); or cognac-seared filet mignon over watercress ($11). And don't miss the kaffir lime and lemongrass martini ($11).



Tennessee Titans
Restaurant:
Burger Up
2901 12th Ave. S.

Distance: 4.5 mi. from LP Field

The Woodstock burger ($11)–a 1/3 pounder topped with bacon, white cheddar, and Jack Daniels ketchup–is the way to go. If you're in the mood for something less meaty, try the beer-poached prawns with Bloody Mary cocktail sauce ($8).



Washington Redskins
Restaurant:
Mussel Bar
7262 Woodmont Ave., Bethesda, Md.

Distance: 17.9 mi. from FedEx Field

The moules frites ($16) come served several ways, from the classic to the less traditional (spicy Thai). The restaurant is also fanatical about its beer. Try the house pilsner, the Brabo Pils ($7). Whatever you do, don't ask for a Bud Light. Ⓑ



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Humility is not evident in Carroll's and Payton's literary works



ILLUSTRATION BY JON STICH

The Gospel According to Payton and Carroll

The latest entrants to the football literary guild offer insights. Even if they don't realize it. *By Ian McGugan*

One of the great advantages of coaching muscular young men who may not have read many books is that you can get away with retailing slogans as "philosophy." And since football fans and publishers assume anyone who can lead a team to a championship must be an organizational genius, such philosophy is easily marketable between hard covers.

This odd corner of the literary world includes compendiums of football realpolitik, like *The Score Takes Care of Itself* by the late coach of the San Francisco 49ers, Bill Walsh. It also spans the inspirational, such as former Indianapolis Colts coach and vocal Christian Tony Dungy's recent *The Mentor Leader*. Mostly, though, these volumes—and their titles—read like raspy-voiced Vince Lombardi screaming matches. In bookstore aisles, *Do You Love Football?!* by former Tampa Bay Buccaneers coach Jon Gruden goes head-to-head with *How Good Do You Want to Be?* by University of Alabama coach Nick Saban.

This year the coaches' literary guild welcomes works by two new authors: Sean Payton, coach of the New Orleans Saints, and Pete Carroll, the recently hired steward of the Seattle Seahawks. Their works are very different, but they do share one characteristic—each author's unstinting admiration for himself.

In Payton's case, the strutting begins with the double-barreled boast in his book's subtitle: *Coaching the Saints and New Orleans Back to Life*. Most of us know about the Saints' Super Bowl championship last season, but few outside the Payton household had until now realized he was personally responsible for the resurrection of southern Louisiana. Carroll revels in the tale of how he stumped an audience of generals and admirals by challenging them to state their individual philosophies in 25 words or less. Unlike those sloppy military types, Carroll has his wisdom standing at



Win Forever: Live, Work, and Play Like a Champion

by Pete Carroll with Yogi Roth (PORTFOLIO, 240pp, $25.95)

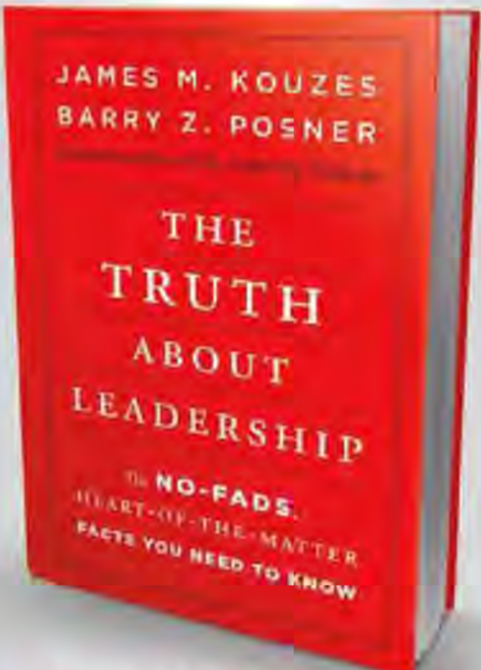


Home Team: Coaching the Saints and New Orleans Back to Life

by Sean Payton and Ellis Henican (NEW AMERICAN LIBRARY; 304 pp, $24.95)

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Compete, Pray, Love

A primer on the management philosophies of the gridiron literati —*Spencer Bailey*



Tom Coughlin Head coach, New York Giants; author, *A Team to Believe In*

Mike Ditka Former head coach, Chicago Bears and New Orleans Saints; author, *In Life, First You Kick Ass*

Dennis Green Former head coach, Minnesota Vikings and Arizona Cardinals; author, *No Room for Crybabies*

Jon Gruden Former head coach, Oakland Raiders and Tampa Bay Buccaneers; author, *Do You Love Football?!*

attention and even capitalized for convenience. He calls it the "Win Forever" philosophy and is happy to draw a pyramid showing how you, too, can gain a "competetive edge." (Apparently people who Win Forever don't have to worry about Spelling Correctly.)

Is there anything to be learned from this pair of self-adoring coaches? Oddly, yes. The key is realizing that both books are like trick plays, with lots of misdirection calculated to lure the unwary reader into jumping offsides. If you keep your eye on the ball, however, you'll begin to see real management secrets emerge. Here are five truths in coach-friendly language that you can learn—but you'll never see on the cover of either book.

I. RULES ARE FOR THE LITTLE PEOPLE: Payton boasts about breaking a National Football League decree by serving alcohol on team flights. He also explains how, against NFL rules, he tried to get champagne smuggled into the locker room at the Super Bowl. No big deal? Maybe, except this is the same guy who tells us a few pages earlier that he looks for "players with the character to know right from wrong and to conduct their lives by that knowledge."

II. IT'S ALL ABOUT ME: Payton mentions a game late in the 2009 season after the Saints had already clinched the top seed in the conference playoffs. He faced the choice of playing the game to win or, as he concluded, rest his starters for the post-season. It may have been prudent, but Payton's rationale is suspect. "Naturally, if you're the broadcast crew for that game, you don't want to have to look through your flip card to see who's in the lineup," he writes. "Well, tough. I couldn't give a rat's ass about the interest level you and everyone else have in this game. It means nothing to me or our team." You tell 'em, Sean. That's the way to treat the fans who ultimately pay a considerable portion of your salary.

III. WHEN IN TROUBLE, CALL A TIME-OUT: This summer the NCAA levied crushing penalties against the University of Southern California for violations committed under Carroll's watch. In statements since then, Carroll has maintained he didn't know anything about the money that star running back Reggie Bush was said to have received. Although the allegations have been around since 2006, Carroll doesn't address them. In fact, the guru of Win Forever has few specifics in his book about battles for prized recruits or, for that matter, football strategy. He prefers to dwell on windy generalities about being "in the zone." The lesson here? When trouble busts loose, look away.

IV. CLICHES KICK BUTT: As John Maynard Keynes once observed, it's better for your reputation if you fail conventionally than succeed unconventionally. Coaches live this truth and plot fresh ways to serve up clichés. Carroll takes this strategy to alarming levels, mixing up Esalen-era pop psychology with Woody Hayes-vintage aphorisms. His players should perform with "a quieted mind" but "no whining, no complaining, no excuses." And, oh yeah, arrive early for meetings.

V. WINNING IS FLEETING: If either Carroll or Payton has a surefire formula for winning, he employs

Philosophy:
To win in life, overcome obstacles. Along the way, climb mountains.



Mike Shanahan
Head coach, Washington Redskins; author, *Think Like a Champion*

Philosophy:
Success begins at home as a family leader. Treat wife and kids "like gold."



Mike Singletary
Head coach, San Francisco 49ers; author, *Daddy's Home at Last*

it only sporadically. Carroll flopped in two previous stints as an NFL coach, first with the New York Jets and then with the New England Patriots. Payton has a Super Bowl ring as well as a losing season and a .500 one. So why are we reading their musings? Because memories are short. Every year, in every league, someone has to hoist the trophy—but just ask Super Bowl winners like Mike Holmgren or Brian Billick how difficult it is to capture a second title.

Championship football coaches, like hot mutual fund managers, should keep in mind that everyone gets humbled. That's why Payton seems ultimately the wiser man. He concludes his book with the Saints' victory parade and makes no promises about what comes next. In contrast, Carroll invites the reader to watch him work his magic on a Seahawks team that will be lucky to break .500 this season. In a world where nobody wins forever, he's setting himself up for one hellacious fall. Let the games begin. Ⓑ

FROM LEFT: BEN LIEBENBERG/NFL PHOTOS/GETTY IMAGES; SHEA WALSH/AP IMAGES; DILIP VISHWANAT/GETTY IMAGES; JOHN RAOUX/AP PHOTO; GEORGE GOJKOVICH/GETTY IMAGES; TODD ROSENBERG/SPORTS ILLUSTRATED/GETTY IMAGES

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Chris Berman

"In 1989, NBC came after me for four times what I was making. I loved what I was doing, but four times is four times. And it was network TV"

The legendary host of ESPN's *Sunday NFL Countdown* on how he almost left the network—on three different occasions



I started at ESPN in 1979, when I was a young kid and they were just beginning. Cable TV was a neophyte. It's been awesome, but there were moments when it was tempting to leave.

In 1988 the owner of the San Francisco Giants, Bob Lurie, told me that the team wanted to hire its own announcer, and I was his candidate. One of the goals in my career had been to do play-by-play for the Giants, which remains my favorite team in baseball. I had to think long and hard about that: I love the Bay Area, and I was a young guy. Ten years before, that job would have been like dying and going to heaven. But a few weeks later, I called him and said I couldn't. A year before, ESPN had gotten an NFL contract, and I was their host. I said: "Bob, even though this is my childhood dream, you've come a year too late."

In 1989, NBC came after me for four times what I was making. I loved what I was doing, but four times is four times. And it was network TV. I said to Steve Bornstein, who was our executive vice-president at the time: "You're not a golfer, and I'm not a very good one, but you've got to get to within a nine iron of this offer." This played out over six months, but they got there. I got three times, not four, but it was enough. I had 10 years of equity in the company. More than anything else, though, it was a decision of the heart.

I was really surprised this year when ESPN let my contract run out. Since 1989 my contract was always renewed a year or two before it expired. I can't tell you what their thinking was. I wasn't hurt or shocked—just surprised. This was the first time in a while I had to consider what I might do next. I would have had a place to go: Steve Bornstein was now running the NFL Network. We were talking, and I trusted him. I had to be ready to leave, because this hadn't happened in 20 years.

I'm fortunate ESPN decided I'm still good enough to carry the flag. I've been doing this show longer than Johnny Carson, longer than Lucille Ball. Thirty years is a long time, and I don't want to be anywhere else. B —*As told to Diane Brady*

RICH ARDEN/ESPN

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